

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 19b-4**

**Proposed Rule Change by**

**THE BOSTON STOCK EXCHANGE, INC.**

**Pursuant to Rule 19b-4 under the  
Securities Exchange Act of 1934**

**ITEM 1. Text of the Proposed Rule Change**

The Boston Stock Exchange, Inc. ("BSE" or "Exchange") proposes to amend SR-BSE-2002-15 to create a new electronic options trading facility of the BSE, called the Boston Options Exchange ("BOX"). The text of the proposed rule change is attached as Exhibit A.

**ITEM 2. Procedures of the Self-Regulatory Organization**

(a) The proposed rule change was approved by the BSE's Board of Governors on June 17, 2003.

(b) Questions and comments regarding the proposed rule change may be directed to the following:

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**ITEM 3. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

**Purpose**

As discussed in detail in the BOX Proposing Release<sup>1</sup>, the BSE proposes to establish rules for BOX,<sup>2</sup> a new exchange facility, as that term is defined in

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<sup>1</sup> See Securities Exchange Act Release No. 47186 (Jan. 14, 2003), 68 FR 3062 (Jan. 22, 2003) (SR-BSE-2002-15) ("BOX Proposing Release").

Section 3(a)(2) of the Securities Exchange Act of 1934 (the “Act”).<sup>3/</sup> BOX would be operated by Boston Options Exchange Group, LLC (“BOX LLC”). BOX would administer a fully automated trading system for standardized equity options intended for the use of Options Participants.<sup>4/</sup> It would conduct an auction market similar to the ones conducted by the options exchange markets currently in operation, although the BOX auction would occur electronically and not on a floor. BOX would provide automatic order execution capabilities in the options securities listed or traded on the BSE.

In this Amendment, the BSE has made certain minor changes, like renumbering and fixing typographical errors. In addition, the BSE also proposes the following, more substantive changes to the proposed rules set forth in the BOX Proposing Release. For ease of reference, the BSE has referenced each section or Paragraph which has been added to, or changed in any substantial way.

**Proposed Chapter I, Section 1** The BSE proposes to add or amend the following definitions:

Proposed definition (21) has been amended to state “The term “**Directed Order**” means any Customer Order to buy or sell which has been directed to a particular Market Maker by an OFP.” This definition was added in order to clarify that an OFP may send an order to BOX and have it routed to a particular Market Maker for an opportunity for price improvement pursuant to proposed Chapter VI Section 5.

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<sup>2/</sup> The term “BOX” means the Boston Options Exchange or Boston Stock Exchange Options Exchange, an options trading facility of the Exchange under Section 3(a)(2) of the Act. Proposed BOX Rules, Chapter I, General Provisions, Sec. 1(a)(6) (definition of “BOX”).

<sup>3/</sup> See 15 U.S.C. 78c(a)(2).

<sup>4/</sup> The term “Options Participant” or “Participant” means a firm, or organization that is registered with the Exchange pursuant to Chapter II of the BOX Rules for purposes of participating in options trading on BOX as an “Order Flow Provider” or “Market Maker”. Proposed BOX Rules, Chapter I, General Provisions, Sec. 1(a)(39) (definition of “Options Participant”).

Proposed definition (46) has been amended to state that “The terms “**Order Flow Provider**” or “**OFP**” mean those Options Participants representing as agent Customer Orders on BOX and those non-Market Maker Participants conducting proprietary trading.” This definition was amended in order to clarify that OFPs may conduct business with the public on an agency basis and may also conduct a proprietary trading business or may conduct only either business.

Proposed definition (54) has been amended to state that “The term “**Request for Quote**” or “**RFQ**” shall mean a message that may be issued by an Options Participant in order to signal an interest in an options series and request response from other Participants. The RFQ contains only the series symbol and quantity and is broadcast to all Participants.” This definition was added in order to delineate the meaning of the RFQ function pursuant to its use under Chapter VI Section 6(b)(ii).

**Proposed Chapter II, Section 2(b)** – In order to eliminate any confusion that may have arisen from the interpretation of this rule regarding customer-carrying firms, the BSE has amended this paragraph so that Options Participants must be registered as broker-dealers. Additionally, as also discussed below under proposed Chapter XI, the BSE has clarified that its sales practice rules (“Doing Business with the Public”) apply only to those Options Participants who are permitted under the BOX Rules to deal directly with the public, that is, OFPs. It was never the intention that participation in BOX be limited to customer-carrying firms.

**Proposed Chapter II, Section 2(e), (g) and (h)** – In several places, the BSE has added requirements regarding Options Participants. Primarily for the purposes of examinations, the BSE has set forth requirements for Options Participants who, though they must be U.S. registered broker-dealers, do not maintain an office within the United States and are responsible for preparing and maintaining financial and other reports required to be filed with the Commission, BOXR and the Exchange. In such cases the Options Participant must maintain all such documents in English and U.S. dollars, provide an individual

fluent in English and knowledgeable in securities and financial matters, and shall reimburse the Exchange for any expense incurred in connection with examinations of the Participant to the extent that such expenses exceed the cost of examining a Participant located within the continental United States.

Also, the BSE has set forth that Options Participants must have as the principal purpose of being a Options Participant the conduct of a public securities business. These requirements are consistent with those in place on other options exchanges and which have been previously approved by the Commission.<sup>5</sup> In light of the current focus in the market place on corporate governance, and non-U.S. based market participants, the BSE has determined that these provisions would serve to add important investor protections to the BOX Market, while not limiting or inhibiting the low barriers to access unique to BOX vis a vis the other options markets.

**Proposed Chapter V, Section 9** – The BSE realizes that in this section it had made a typographical error and used the term “Market-On-Open” Order, while in Chapter V, Section 14, the same order is called a “Market-On-Opening” Order. The BSE has corrected this error so that the name of the order in Section 9 is also “Market-On-Opening”. In addition, the BSE notes that it has not changed any other parts of this section, including paragraph (b) which states that “BOX will determine a single price at which a particular series will be opened.”

**Proposed Chapter V, Section 14** – In this section, the BSE has changed the name of the Market Order. Formerly, the BSE defined a Market Order as an order which is “entered into the BOX Book and executed at the best price available in the market for the total quantity available from any contra bid(offer). Any residual volume is automatically converted to a limit order at the price at which the original market order was exhausted.” Since this definition differs from the commonly used concept of “market order” in the

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<sup>5</sup> See e.g. ISE Rule 301.

U.S. based options market, the BSE has changed the name of this order type to “BOX-Top” Order, to eliminate the possibility of confusion on the part of investors and other options market participants. The BOX Market will not have a “market order”, as that term is typically used, that can be executed at successive price levels. A BOX-Top Order will not receive a price inferior to that which a typical market order would have received in the BOX Market. Moreover, as a result of BOX’s trade-through filter process (see discussion below of Chapter V, Section 16(b)) and the Intermarket Linkage, no BOX-Top Order will receive a price inferior to the NBBO. Indeed, due to BOX’s Price Improvement Period mechanism, orders submitted to BOX have the potential to be executed at a price superior to the NBBO.

In addition, the BSE has clarified the definition of Market-on-Opening Order by adding that “any residual volume left after part of a Market-on-Opening Order has been executed is automatically converted to a limit order at the price at which the original Market-on-Opening Order was executed.”

**Proposed Chapter V, Section 16(b)** – The BSE has added to this section rules governing the BSE’s proposed filtering of in-bound orders to prevent trade-throughs. All in-bound orders to BOX from Customers as well as inbound Principal (“P”) and Principal as Agent (“P/A”) orders received via the InterMarket Linkage will be filtered by BOX prior to entry on the BOX Book in order to ensure that these orders will not execute at a price outside the current NBBO (“trade-throughs”). In this manner, the BSE believes that it has added an extra level of efficiency to its BOX trading engine which will serve to enhance both the best execution of orders as well as BOX’s participation in the Intermarket Linkage. The filter will operate by analyzing each in-bound Customer Order, P Order or P/A Order as follows:

Step 1: The filter will determine if the order is executable against the NBBO (by definition the answer is “yes” in the case of a BOX -Top Order).

- If NO, then the order would be placed on the BOX Book.

- If YES, then the filter will proceed to Step 2.

Step 2: The filter will determine whether there is a quote on BOX which is equal to the NBBO.

- If NO, then the order is exposed on the BOX Book at the NBBO for a period of three seconds, during which time any Options Participant may execute against the order. At the conclusion of the three second period, if there is any remaining quantity, the filter will proceed to Step 3.
- If YES, then the order would execute against the quote/orders on the BOX Book.

Step 3: If there is any unexecuted quantity at the end of three seconds, then:

- In the case of Public Customer orders, a P/A Order will be generated and sent to the away exchange that is displaying the NBBO.
- In the case of P and P/A Orders, any unexecuted portion will be returned to the originating exchange.

In determining the length of time for an exposure period for orders which might otherwise trade through NBBO, but are "caught" by the filter, the BSE has determined that three seconds is ample time, in an electronic trading environment, for an Options Participant to match the NBBO in those instances in which BOX is not quoting at the NBBO. This exposure period will give all the BOX Market Makers, as well as Participants in general, an opportunity to trade at the NBBO should they choose to do so.

**Proposed Chapter V, Section 17(c)** – The BSE has eliminated the provision which imposed a surcharge on Options Participants that submitted orders on behalf of broker-

dealers in excess of two times the number of Public Customer contracts they executed in a given month. Similar to the rationale for the elimination of a charge to Market Makers set forth in Chapter VI, Section 4(e), discussed below, the BSE is concerned that such surcharges could be construed as a barrier to entry to BOX's flat and open marketplace.

**Proposed Chapter V, Section 17, Supplementary Material .03** - Concurrent with changes to certain sections regarding Information Barriers and Directed Orders (see discussion below of Chapter VI, Section 5(c)), the BSE has added a provision detailing the obligations of OFPs and Market Makers in regards to communications of information about orders being submitted to the PIP, or otherwise directed. The obligations are set forth as follows:

“Prior to submitting an order to a PIP, an OFP cannot inform an Options Participant of any of the terms of the order, except as provided for in Chapter VI, Section 5(c) of these Rules. (See BSE Rules, Chapter II, “Dealings on the Exchange”, Section 36, “Specialist Member Organizations Affiliated with an Approved Person”).

The BSE is confident that these measures, along with other protections set forth elsewhere in the BOX Rules, will ensure that adequate measures are in place to protect against the use or misuse of any material, non-public information by any BOX Participant in regard to any order entrusted to him/her.

**Proposed Chapter V, Section 18(b)** – The Exchange is not changing or adding language to this section, but notes that this section is not intended to replace best execution principles. Rather, the BSE is supplementing best execution standards by the language set forth herein.

**Proposed Chapter V, Section 18(c)** – Similar to the above discussion, the BSE has added language in this section regarding orders for which matching business has been

found. Previously, the provision limited Participants to only utilizing the PIP for these types of orders. To allow more flexibility to OFPs, the BSE has determined that OFPs can execute such orders on the BOX Book, but only after one of the following two prerequisites have been met “(i) agency orders are first exposed to the BOX book for at least thirty (30) seconds, or (ii) the OFP has been bidding or offering on BOX for at least thirty (30) seconds prior to receiving an agency order that is executable against such bid or offer.” These two alternatives are not applicable to Market Makers, rather they must abide by the requirements of Chapter VI, Section 5(b) and (c), regarding Directed Orders, discussed below. The first alternative requires exposing the order on the BOX Book for a period of thirty seconds before attempting to execute against it. Under the second alternative the OFP can execute the order immediately on the BOX Book if that OFP has been bidding or offering on the BOX Book for at least thirty seconds prior to receiving an agency order that is executable against such bid or offer. Additionally, the provisions state that an OFP must not otherwise deliberately attempt to effect a transaction, either under a single Participant or between two Participants, without following PIP procedures. With these provisions, the BSE is offering a OFP the flexibility of best-execution decision making, coupled with protections to ensure that Information Barriers are not breached, and that Participants are not acting in any way contrary to their customer’s best interests.

**Proposed Chapter V, Section 18(e)** – In order to maximize the potential for price improvement of orders submitted to the PIP (which already, by definition, price improves all orders by at least one cent better than the NBBO), the BSE is requiring that in order for a PIP to commence there be at least three Market Makers quoting in a relevant series at the time a Participant submits a Primary Improvement Order to initiate a PIP. The BSE is confident that this requirement will be easily satisfied, given the accessibility to the BOX Market for Market Makers. Additionally, the BSE has clarified that a PIP will commence upon the dissemination of a broadcast message by BOX, which states “1) that a Primary Improvement Order has been processed by BOX, 2) which contains

information concerning series, size, price and side of market, and 3) states when a PIP will conclude.”

**Proposed Chapter V, Section 18(g)** – The BSE has added a new paragraph to Chapter V Section 18. This new paragraph provides that OFPs may access the PIP on behalf of customers that are not broker-dealers (i.e. Public Customers) via a new order type, the Customer PIP Order, or “CPO”. CPOs shall include terms that state a price in standard increments (five or ten cents) at which the order will be placed on the BOX Book, as well as a price in pennies at which the Public Customer wishes to participate in any PIPs that may occur while his/her order is on the BOX Book. In order for a CPO to be eligible for participation in a PIP, the CPO must be priced at or better than the NBBO. If a PIP commences in a relevant series and the CPO is at or better than the NBBO, then the OFP may, on behalf of the Public Customer, submit the CPO to the PIP for participation. Upon submission, the CPO will be treated similar to a Market Maker Improvement Order in the PIP, however, its terms cannot be cancelled or amended during the PIP.

The BSE believes that this provision will permit Public Customers greater control and flexibility in how their orders are handled on BOX. Public Customers will now be able to participate in PIPs. In addition, the BSE believes that offering to OFPs the prospect of this service on behalf of Public Customers will serve to increase the number of Participants competing in PIPs, ultimately leading to greater price improvement for orders on BOX.

The additions are as follows:

(g) “OFPs may provide access to the PIP on behalf of a customer that is not a broker-dealer (“Public Customer”) in the form of a Customer PIP Order (“CPO”) provided that:

- i. The terms of each CPO shall include a price stated in rounded five cent or ten cent increments, as appropriate, (“standard tick”) at which the order shall be placed in the BOX Book (“BOX Book

Reference Price”) as well as a specific price stated in one cent increments (“penny tick”) at which the Public Customer wishes to participate in any PIPs (“CPO PIP Reference Price”) that may occur while his order is on the BOX Book and displayed at the BOX Book Reference Price;

- ii. The terms of each CPO shall include a specific order size (“CPO Total Size”). The number of contracts that may be entered into a PIP must be equal to the lesser of (a) the CPO Total Size remaining on the BOX Book or (b) the size of the Primary Improvement Order submitted to the PIP;
- iii. In order for the CPO to be eligible for participation in a PIP in the subject options series, the BOX Book Reference Price for a CPO at the time a PIP commences must be equal to the NBBO.
- iv. The CPO may only participate in a PIP on the same side of the market as the Primary Improvement Order.
- v. Upon initiation of a PIP for which a CPO is eligible to participate pursuant to paragraphs (i)-(iv) above, the OFP who submitted the CPO to the BOX Book must submit a CPO to the PIP at the CPO PIP Reference Price.
- vi. The terms of any CPO submitted to a PIP may not be amended or cancelled at any time during a PIP;”

**Proposed Chapter V, Section 19(a)** – To clarify that a Market Maker Prime cannot be both the Market Maker Prime and the party who initiated the process in the same PIP, thereby guarantying receipt of more than 40% of any allocation resulting from that PIP,

the BSE has added a provision that “the Market Maker Prime must not have submitted the Primary Improvement Order to commence the relevant PIP.”

**Proposed Chapter V, Section 27(b)(i)** – In order to remain consistent with similar rules regarding Complex Orders on other options exchanges, the BSE has added an exception which sets forth that Complex Orders with net price increments that are not multiples of the minimum increments are not entitled to trade ahead of other interest at the BOX best bid and offer.

**Proposed Chapter VI, Section 4(e)** – The BSE deleted the provision which imposed a monetary penalty on Market Makers who transacted business in classes outside of their appointments. Rather than a specific monetary penalty, which may have been construed as a barrier to entry to the BOX Market, the BSE has chosen to mirror provisions common on other options exchanges that permit Market Makers to trade outside of their appointments. This amendment also sets forth an execution percentage requirement that Market Makers must meet within the classes to which they are appointed. The additions are as follows:

“Market Makers may transact business outside of their appointments, but the total number of contracts executed during a quarter by a Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Market Maker.”

**Proposed Chapter VI, Section 5(b) and (c); Section 10(g) and (h)** – To clarify the intention that Market Makers would be able to handle orders on an agency basis directed to them by OFPs, the BSE has changed “Customer Order” to “Directed Order” throughout Section 5, as well as in Section 10, which addresses Information Barriers. As previously discussed above, in the Definitions section of Chapter I, a Directed Order would be defined as an order directed to a Market Maker by an OFP. An OFP would send a Directed Order to BOX with a designation of the Market Maker to whom the order is to be directed. BOX would route the Directed Order to the appropriate Market Maker.

Proposed Sections 5(b) and (c) concern the requirements for a Market Maker who would handle a Directed Order. To address any concerns regarding informational barriers and the transfer of information, intended or not, which may accompany a Directed Order, under proposed Section 5(c)(i) the BSE would prohibit a Market Maker from rejecting a Directed Order. Under proposed Section 5(c)(ii), a Market Maker only has two choices when he receives a Directed Order: 1) submit the order to the PIP process; or 2) send the order back to BOX for placement onto the BOX Book. If a Market Maker chooses to submit the Directed Order to the PIP process and he is currently quoting at a price equal to the NBBO, he must not adjust his quote prior to submitting such Directed Order to the PIP process.

Proposed Section 5(c)(iii) addresses the requirements when a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book. The following steps describe the Directed Order process from this point:

Step 1: Does the Market Maker who is sending the Directed Order to BOX have a quote on the opposite side of the Directed Order equal to the NBBO?

- If YES, then proceed to Step 4.
- If NO, then proceed to Step 2.

Step 2: The Market Maker would submit the Directed Order to BOX. The BOX trading engine would determine if the Directed Order is executable against the NBBO (the answer is “yes” in the case of a Directed Order that is also a BOX-Top Order).

- NO, then BOX would place the Directed Order on the BOX Book to be treated as any other order.

- If YES, then BOX would proceed to Step 3.

Step 3: BOX would determine whether there are any quotes/orders on the BOX Book which are equal to the NBBO.

- If NO, then BOX would submit the Directed Order to the trade-through filter process pursuant to proposed Chapter V, Section 16(b), described above.
- If YES, then BOX would execute the Directed Order against the quotes/orders on the BOX Book. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

Step 4: If a Market Maker's quote on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker would determine if the Directed Order is executable against the NBBO.

- If NO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book to be treated as any other order.
- If YES, then the Market Maker must guarantee execution of the Directed Order at the current NBBO for at least the size of his current quote. This guarantee would be defined as a Guaranteed Directed Order ("GDO").

Step 5: The Market Maker must then immediately send the Directed Order and the GDO to BOX.

Step 6: Upon receipt of the Directed Order and the GDO, BOX would execute the Directed Order against any quotes/orders already on the BOX Book, except the quote of the Market Maker who submitted the Directed Order and GDO.

Step 7: If there is any quantity remaining of the Directed Order, then BOX would send to all BOX Participants a Directed Order Broadcast (“DOB”) message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order.

Step 8: The Market Maker would be prohibited from executing for his proprietary account against the Directed Order for at least three seconds. During that time the Market Maker would not be allowed to decrement the size or worsen the price of his GDO. However, he would be able to increase the size of his GDO or improve its price (in standard five or ten cent increments only). During that period, any BOX Participant, except the Market Maker who submitted the Directed Order to BOX, may submit an order to the BOX Book in response to the DOB. Such a DOB response order would be treated as a BOX Limit Order. During that three second period, any order submitted to the BOX Book that matches any order(s) on the BOX Book, except the Market Maker’s GDO, would be executed.

If the Market Maker received a subsequent Directed Order during this period, pursuant to subparagraphs (c)(ii) and (iii), he would be able to either submit it to the PIP process or send it to the BOX Book, following the same process as for the first Directed Order. BOX would process any subsequent Directed Orders in sequence as they are submitted to BOX for either the PIP process or for placement on the BOX Book. Any remaining quantity of a Directed Order that may be placed on the BOX Book, such as at the end of either step 3 (above) or step 9 (below), is treated like other orders placed on the BOX Book. Therefore, the remaining quantity may execute against another Directed Order on the opposite side of the market, whether that second Directed Order is submitted to the PIP process or placed on the BOX Book.

Step 9: Three seconds after sending the DOB, BOX would release the remaining quantity of the Directed Order to the BOX Book. At that time, BOX would immediately execute any orders on the BOX Book, including those submitted in response to the DOB, against the Directed Order on a price-time priority basis. However, the BOX trading engine would ensure that the GDO would yield priority to all such competing orders at the same price. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

The BSE believes that use of the DOB and the exposure of the Directed Order to the BOX market will serve to ensure that a Market Maker would not be able to act against the Directed Order using any privileged or other information regarding that order. In addition, the BSE has eliminated the exemption in Section 10(g) and amended Section 10(h) in order to clarify that Market Makers must comply with all provisions of the Section 10 when they receive and handle Directed Orders. In total, these amendments will ensure that Directed Orders are not disadvantaged or treated inconsistent with the BOX or BSE Rules.

The pertinent rule additions are as follows:

Section 5-

(c) When acting as agent for a Directed Order, a Market Maker must comply with subparagraphs (i) – (iii) of this Paragraph (c).

- i. A Market Maker that receives a Directed Order shall not, under any circumstances, reject the Directed Order.
- ii. Upon receipt of a Directed Order a Market Maker must either:

- 1) Submit the Directed Order to the PIP process, pursuant to Chapter V, Section 18 of these Rules. Under this option, if the Market Maker is currently quoting at a price on the opposite side of the Directed Order equal to the NBBO, he is prohibited from adjusting his quotation prior to submitting the Directed Order to the PIP process.

-or-

- 2) Send the Directed Order to the BOX Book pursuant to subparagraph (c)(iii) below.
- iii. When a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book, the following requirements shall apply:
- 1) If the Market Maker's quotation on the opposite side of the market from the Directed Order is not equal to the NBBO, then the Market Maker must send the Directed Order to BOX.
    - a. The Trading Host will determine if the Directed Order is executable against the NBBO.
      1. If the order is not executable against the NBBO, then the Trading Host will enter the Directed Order onto the BOX Book for processing consistent with all non-executable orders.

2. If the Directed Order is executable against the NBBO, then the Trading Host will determine if there are any orders on the BOX Book equal to the NBBO.
  - i. If there are no orders on the BOX Book equal to the NBBO, then the Trading Host will filter the Directed Order against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules.
  - ii. If there are orders on the BOX Book equal to the NBBO, then the Trading Host will execute the Directed Order against those orders. Any remaining quantity will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.
  
- 2) If the Market Maker's quotation on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker will determine if the Directed Order is executable against the NBBO.
  - a. If the order is not executable against the NBBO, then the Market Maker must send the Directed

Order to BOX for placement on the BOX Book for processing consistent with all non-executable orders.

- b. If the order is executable against the NBBO, then the Market Maker shall guarantee execution of the Directed Order at the current NBBO for at least the size of his quote. This guarantee shall be called a Guaranteed Directed Order (“GDO”). The Market Maker must immediately send the Directed Order with the GDO to the Trading Host.
  1. The Market Maker who submitted the Directed Order and the GDO to the Trading Host:
    - i. Shall not submit to the BOX Book a contra order to the Directed Order for his proprietary account until the Directed Order is released to the BOX Book pursuant to subparagraph (c)(iii)(2)(b)(4) below.
    - ii. Shall not decrement the size or worsen the price of his GDO.
    - iii. May increase the size of his GDO.
    - iv. May improve the price of his GDO (only in five or ten cent minimum trading increments, as applicable

pursuant to Chapter V, Section 6 of these Rules).

- v. Upon receipt of a subsequent Directed Order, may either submit it to the PIP process or send it to the BOX Book pursuant to subparagraphs (c)(ii) and (iii).
2. Upon receipt of the Directed Order, the Trading Host will execute the Directed Order against any matching orders on the BOX Book, except the order of the Market Maker who submitted the Directed Order.
3. If there is any quantity remaining of the Directed Order, then BOX will send to all BOX Participants a Directed Order Broadcast (“DOB”) message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order. For the following three seconds, any BOX Participant, except the Market Maker who submitted the Directed Order, may submit an order to the BOX Book in response to the DOB. Such a DOB response order will be treated as a BOX Limit Order.
4. During the three second period following the DOB, any order submitted to the BOX Book that matches an order already on the BOX

Book will be executed. Three seconds after the DOB, the Trading Host will release the remaining quantity of the Directed Order to the BOX Book. At that time, the Trading Host will immediately execute any orders on the BOX Book against the Directed Order on a price-time priority basis. The GDO shall yield priority to all such competing orders at the same price. Any remaining quantity of the Directed Order will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

**Proposed Chapter VI, Section 6(b) and (f)** - BOX Market Makers undertake a meaningful obligation to provide continuous two-sided markets. These obligations include the requirement that quotations be for a size of at least ten contracts, and within the legal width of the market. Under the amendments to the proposed rules, a Market Maker must respond to a Request for Quote (“RFQ”) message within fifteen seconds, with a similarly valid quotation. The Exchange believes that this fifteen second period is ample time for a Market Maker to respond in an automated market, particularly given other BOX features, such as the PIP, which require a much shorter response time. Nevertheless, realizing that an RFQ may require a Market Maker to furnish a quote where he might not otherwise choose to, the BSE is proposing that fifteen seconds is a sufficient amount of time in which to enable a Market Maker to generate a meaningful quotation response. Although the BSE is confident that it has provided a marketplace which will be robust and liquid, the delineated responsibilities added to this section will

serve to guarantee that Market Makers provide liquidity to the market, and do so on a continuous basis.

In paragraph (f) the BSE has changed the time period to six months for which the Board would have exemptive authority to grant Market Makers exemptions from the requirements of paragraph (e)(iii) of this Section 6.

The added language to Section 6(b) is set forth as follows:

ii. “If a Market Maker is not already posting a valid (i.e. for ten contracts, within the legal width of the market, as applicable) two-sided quote in a series in a class in which he is appointed as Market Maker, he must post a valid two-sided quote within fifteen (15) seconds of receiving any RFQ message issued. The valid two-sided quote so posted must be retained by the Market Maker for at least thirty (30) seconds.

iii. Every RFQ message issued, and every responsive quote, must be for a minimum size of at least ten contracts, and must be within the legal width of the market, as applicable.”

**Proposed Chapter VIII, Section 7** – The BSE has added anti-money laundering provisions similar to the rules in place on other exchanges.

**Proposed Chapter XI** - To clarify that OFPs, as opposed to Options Participants generally, are the only types of Participants that can deal directly with the public, the BSE has changed the references to “Options Participants” to “OFPs” throughout Chapter XI, “Doing Business with the Public”.

**Proposed Chapter XII** – As with all options exchanges, the BSE is adding Intermarket Linkage Rules to the BOX Rules. These rules are substantially similar to the rules in place on all of the options exchanges. Several Comment Letters expressed concern regarding BOX’s participation in the Intermarket Linkage Plan. Subject to Commission approval, BOX, through the BSE, would become a full participant in the Intermarket Linkage Plan (“Linkage” or “Plan”) for the options markets. As such, BSE would comply with the obligations of the Plan and has added Intermarket Linkage Rules to the BOX Rules. The following is an overview of how the BOX Market would interact in the Plan and is not intended to be a comprehensive discussion of how the proposed Intermarket Linkage Rules of Chapter XII of the BOX Rules apply to Options Participants:<sup>6</sup>

**Principal (“P”) Orders Sent From BOX to Away Markets**

A BOX Eligible Market Maker (“BEMM”)<sup>7</sup> may submit a P order to the BOX trading engine for routing to one or more away markets provided the following conditions are satisfied:

- The BEMM is a BOX Market Maker on the class for which the P order is submitted.
- The BEMM has complied with the Plan’s “80/20 rule” for the previous calendar quarter.
- Prior to sending the P order, the BEMM is posting a bid and an offer for at least ten contracts within the allowable price spread for the class.

Provided the above conditions are met, the BOX trading engine would automatically route the BEMM’s P order to the designated exchange and transmit back

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<sup>6</sup> See Proposed BOX Rules, Chapter XII (Intermarket Linkage Rules).

<sup>7</sup> A BOX Market Maker who meets the requirements of an Eligible Market Maker as set forth in the Plan.

any responses (e.g. order executions, rejections) that BOX receives from the away market via OCC.

**P Orders Sent From Away Markets to BOX**

Orders sent to BOX by Eligible Market Makers (as set forth in the Plan) from away exchanges via the Linkage are processed as though they were orders received directly from a BOX Participant. That is, these orders would execute automatically on the BOX trading engine against any orders on the BOX Book up to either the quantity on the BOX Book at that price or the actual quantity of the P order, whichever is less, but in no event for less than ten contracts. BOX would automatically attempt to fill any remaining quantity by exposing the unexecuted portion at the NBBO for three seconds to all BOX Participants.

**Principal-as-Agent (“PA”) Orders Sent From BOX to Away Markets**

To ensure that there is an Eligible Market Maker per Eligible Class (as those terms are defined in the Plan) for the submission of PA and Satisfaction orders to away markets, BOX would specifically designate a BEMM in each Eligible Class traded on BOX responsible for such orders. The BEMM would adhere to the responsibilities of an Eligible Market Maker as set forth in the Plan.

Only orders submitted by BOX Participants on behalf of Public Customer accounts may generate a PA order. Each Public Customer order is checked against the NBBO using BOX’s trade-through filter mechanism as set forth in Chapter V, Section 16(b) (described above). If BOX is not matching the away best price, the order is exposed to BOX Participants for three seconds at the NBBO price.

At the end of this three second period, if the order is not fully executed and a better price exists at an away exchange(s), a PA order is generated automatically by the BOX and routed to the away exchange with the required BEMM, clearing and valid-clearing-firm (“VCF”) information included. Each execution received from an away

exchange results in the automatic generation of a trade execution on BOX between the original Public Customer Order and the BEMM.

**PA Orders Sent From Away Markets to BOX**

In the case when BOX receives PA orders from away markets but BOX is no longer quoting at the NBBO then such PA orders are filtered against trade-throughs in the same manner as Public Customer orders submitted by BOX Participants as set forth in Chapter V, Section 16(b), described above. If their execution would cause a trade-through, the PA orders are exposed to BOX Participants for three seconds at the NBBO price. If PA orders are not fully executed at the end of this period, the residual quantity is canceled back to the originating away exchange. In this manner PA orders are afforded the same opportunity for execution as BOX Public Customer orders.

**Satisfaction (“S”) Orders Sent From BOX to Away Markets**

Each BOX Participant may request, on behalf of a Public Customer, that BOX route an S order to an away market for orders on BOX that were traded through by the away market. BOX would systemically verify the validity of the request (e.g. as to Public Customer status, time stamp of order prior to report of trade-through), and, if valid, generate a S order with the required BEMM, clearing and VCF information included. As execution confirmation is received from the away market, the BOX trading engine would automatically generate offsetting trades between the original BOX Public Customer order and the BEMM.

**Satisfaction Orders Sent From Away Markets to BOX**

S orders received from away markets are systemically verified (e.g. as to Public Customer status, time of trade-through on BOX). Once verified, the BOX Participant that caused the trade-through is identified and, within three minutes, the S order is executed against that BOX Participant. Where there were multiple S orders, the executions are made pro rata with the total not to exceed the lesser of the trade which caused the trade-through or the total quantity of the S orders.

**Proposed Chapter XIII** - The BSE is adding a new Chapter, entitled “Margin Requirements,” to its proposed BOX Rules. Similar to the approach of at least one other options exchange<sup>8</sup>, the BSE proposes to require that BOX Participants and associated persons, among other things, adhere to the requirements of either the New York Stock Exchange (“NYSE”) or the Chicago Board Options Exchange (“CBOE”), as those rules may be in existence from time to time. Additionally, in order to ensure that the BOX Rules adequately address situations involving Joint Back Office (“JBO”) arrangements for Participants who are not an NYSE member and have elected to be bound by CBOE margin requirements, the BSE has included in the BOX margin requirements a set of rules specifically addressing JBO arrangements. In this way, the Exchange is ensuring that its margin rules cross reference other exchanges’ rules as appropriate, and, where not sufficient, adequately provide for the necessary requirements.

**Basis**

The Exchange believes that this proposal is consistent with Section 6(b) of the Act,<sup>9</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>10</sup> in particular, in that it is designed to facilitate transactions in securities; to prevent fraudulent and manipulative acts and practices; to promote just and equitable principles of trade; to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities; to remove impediments to and perfect the mechanism of a free and open market and a national market system; and in general, to protect investors and the public interest.

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<sup>8</sup> See *e.g.* ISE Rule 1202.

<sup>9</sup> 15 U.S.C. 78f(b).

<sup>10</sup> 15 U.S.C. 78f(b)(5).

**ITEM 4. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act. In fact, the Exchange believes that the introduction of a fully electronic options trading facility would serve to enhance competition.

**ITEM 5. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments on the proposed rule change were neither solicited nor received.

**ITEM 6. Extension of Time Period for Commission Action**

The Exchange does not consent to an extension of the time period specified in Section 19(b)(2) of the Act.

**ITEM 7. Basis for Summary Effectiveness Pursuant to Section 19(b)(3) or for Accelerated Effectiveness Pursuant to Section 19(b)(2)**

The Exchange does not request summary effectiveness pursuant to Section 19(b)(3) of the Act or accelerated effectiveness pursuant to Section 19(b)(2) of the Act.

**ITEM 8. Proposed Rule Change Based on Rules of Another Self-Regulatory Organization or of the Commission**

The proposed rule change is not based on the rules of another self-regulatory organization or of the Commission.

**ITEM 9.     Exhibits**

1.     Form of Notice of Proposed Rule Change for publication in the Federal Register.
  - A.     Text of the proposed rule change.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Exchange has duly caused this filing to be signed on its behalf by the undersigned thereunto duly authorized.

**THE BOSTON STOCK EXCHANGE, INC.**

Dated: \_\_\_\_\_ By: \_\_\_\_\_  
George W. Mann  
Executive Vice President,  
and General Counsel

## EXHIBIT 1

### SECURITIES AND EXCHANGE COMMISSION

**(Release No. 34- ; File No. SR-the BSE-2002-15, Amendment No. 3 )  
Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the  
Boston Stock Exchange, Inc. Relating to BOX**

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)<sup>11</sup> and Rule 19b-4 thereunder,<sup>12</sup> notice is hereby given that on , 2003, the Boston Stock Exchange, Inc. (“the BSE” or “Exchange”) filed with the Securities and Exchange Commission (“Commission” or “SEC”) the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The Boston Stock Exchange, Inc. (“BSE” or “Exchange”) proposes to amend SR-BSE-2002-15 to create a new electronic options trading facility of the BSE, called the Boston Options Exchange (“BOX”). The text of the proposed rule change is attached as Exhibit A.

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<sup>11</sup> 15 U.S.C. § 78s(b)(1) (1982).

<sup>12</sup> 17 CFR 240.19b-4 (1991).

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections (A), (B) and (C) below, of the most significant aspects of such statements.

**A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

**Purpose**

As discussed in detail in the BOX Proposing Release<sup>13</sup>, the BSE proposes to establish rules for BOX,<sup>14</sup> a new exchange facility, as that term is defined in Section 3(a)(2) of the Securities Exchange Act of 1934 (the "Act").<sup>15</sup> BOX would be

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<sup>13</sup> See Securities Exchange Act Release No. 47186 (Jan. 14, 2003), 68 FR 3062 (Jan. 22, 2003) (SR-BSE-2002-15) ("BOX Proposing Release").

<sup>14</sup> The term "BOX" means the Boston Options Exchange or Boston Stock Exchange Options Exchange, an options trading facility of the Exchange under Section 3(a)(2) of the Act. Proposed BOX Rules, Chapter I, General Provisions, Sec. 1(a)(6) (definition of "BOX").

<sup>15</sup> See 15 U.S.C. 78c(a)(2).

operated by Boston Options Exchange Group, LLC (“BOX LLC”). BOX would administer a fully automated trading system for standardized equity options intended for the use of Options Participants.<sup>16/</sup> It would conduct an auction market similar to the ones conducted by the options exchange markets currently in operation, although the BOX auction would occur electronically and not on a floor. BOX would provide automatic order execution capabilities in the options securities listed or traded on the BSE.

In this Amendment, the BSE has made certain minor changes, like renumbering and fixing typographical errors. In addition, the BSE also proposes the following, more substantive changes to the proposed rules set forth in the BOX Proposing Release. For ease of reference, the BSE has referenced each section or Paragraph which has been added to, or changed in any substantial way.

**Proposed Chapter I, Section 1** The BSE proposes to add or amend the following definitions:

Proposed definition (21) has been amended to state “The term “**Directed Order**” means any Customer Order to buy or sell which has been directed to a particular Market Maker by an OFP.” This definition was added in order to clarify that an OFP may send an order to BOX and have it routed to a particular Market Maker for an opportunity for price improvement pursuant to proposed Chapter VI Section 5.

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<sup>16/</sup> The term “Options Participant” or “Participant” means a firm, or organization that is registered with the Exchange pursuant to Chapter II of the BOX Rules for purposes of participating in options trading

Proposed definition (46) has been amended to state that “The terms “**Order Flow Provider**” or “**OFP**” mean those Options Participants representing as agent Customer Orders on BOX and those non-Market Maker Participants conducting proprietary trading.” This definition was amended in order to clarify that OFPs may conduct business with the public on an agency basis and may also conduct a proprietary trading business or may conduct only either business.

Proposed definition (54) has been amended to state that “The term “**Request for Quote**” or “**RFQ**” shall mean a message that may be issued by an Options Participant in order to signal an interest in an options series and request response from other Participants. The RFQ contains only the series symbol and quantity and is broadcast to all Participants.” This definition was added in order to delineate the meaning of the RFQ function pursuant to its use under Chapter VI Section 6(b)(ii).

**Proposed Chapter II, Section 2(b)** – In order to eliminate any confusion that may have arisen from the interpretation of this rule regarding customer-carrying firms, the BSE has amended this paragraph so that Options Participants must be registered as broker-dealers. Additionally, as also discussed below under proposed Chapter XI, the BSE has clarified that its sales practice rules (“Doing Business with the Public”) apply only to those Options Participants who are permitted under the BOX Rules to deal directly with the public, that is, OFPs. It was never the intention that participation in BOX be limited to customer-carrying firms.

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on BOX as an “Order Flow Provider” or “Market Maker”. Proposed BOX Rules, Chapter I, General

**Proposed Chapter II, Section 2(e), (g) and (h)** – In several places, the BSE has added requirements regarding Options Participants. Primarily for the purposes of examinations, the BSE has set forth requirements for Options Participants who, though they must be U.S. registered broker-dealers, do not maintain an office within the United States and are responsible for preparing and maintaining financial and other reports required to be filed with the Commission, BOXR and the Exchange. In such cases the Options Participant must maintain all such documents in English and U.S. dollars, provide an individual fluent in English and knowledgeable in securities and financial matters, and shall reimburse the Exchange for any expense incurred in connection with examinations of the Participant to the extent that such expenses exceed the cost of examining a Participant located within the continental United States.

Also, the BSE has set forth that Options Participants must have as the principal purpose of being a Options Participant the conduct of a public securities business. These requirements are consistent with those in place on other options exchanges and which have been previously approved by the Commission.<sup>17</sup> In light of the current focus in the market place on corporate governance, and non-U.S. based market participants, the BSE has determined that these provisions would serve to add important investor protections to the BOX Market, while not limiting or inhibiting the low barriers to access unique to BOX vis a vis the other options markets.

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Provisions, Sec. 1(a)(39) (definition of "Options Participant").

<sup>17</sup> See e.g. ISE Rule 301.

**Proposed Chapter V, Section 9** – The BSE realizes that in this section it had made a typographical error and used the term “Market-On-Open” Order, while in Chapter V, Section 14, the same order is called a “Market-On-Opening” Order. The BSE has corrected this error so that the name of the order in Section 9 is also “Market-On-Opening”. In addition, the BSE notes that it has not changed any other parts of this section, including paragraph (b) which states that “BOX will determine a single price at which a particular series will be opened.”

**Proposed Chapter V, Section 14** – In this section, the BSE has changed the name of the Market Order. Formerly, the BSE defined a Market Order as an order which is “entered into the BOX Book and executed at the best price available in the market for the total quantity available from any contra bid(offer). Any residual volume is automatically converted to a limit order at the price at which the original market order was exhausted.” Since this definition differs from the commonly used concept of “market order” in the U.S. based options market, the BSE has changed the name of this order type to “BOX-Top” Order, to eliminate the possibility of confusion on the part of investors and other options market participants. The BOX Market will not have a “market order”, as that term is typically used, that can be executed at successive price levels. A BOX-Top Order will not receive a price inferior to that which a typical market order would have received in the BOX Market. Moreover, as a result of BOX’s trade-through filter process (see discussion below of Chapter V, Section 16(b)) and the Intermarket Linkage, no BOX-Top Order will receive a price inferior to the NBBO. Indeed, due to BOX’s Price

Improvement Period mechanism, orders submitted to BOX have the potential to be executed at a price superior to the NBBO.

In addition, the BSE has clarified the definition of Market-on-Opening Order by adding that “any residual volume left after part of a Market-on-Opening Order has been executed is automatically converted to a limit order at the price at which the original Market-on-Opening Order was executed.”

**Proposed Chapter V, Section 16(b)** – The BSE has added to this section rules governing the BSE’s proposed filtering of in-bound orders to prevent trade-throughs. All in-bound orders to BOX from Customers as well as inbound Principal (“P”) and Principal as Agent (“P/A”) orders received via the InterMarket Linkage will be filtered by BOX prior to entry on the BOX Book in order to ensure that these orders will not execute at a price outside the current NBBO (“trade-throughs”). In this manner, the BSE believes that it has added an extra level of efficiency to its BOX trading engine which will serve to enhance both the best execution of orders as well as BOX’s participation in the Intermarket Linkage. The filter will operate by analyzing each in-bound Customer Order, P Order or P/A Order as follows:

Step 1: The filter will determine if the order is executable against the NBBO (by definition the answer is “yes” in the case of a BOX -Top Order).

- If NO, then the order would be placed on the BOX Book.
- If YES, then the filter will proceed to Step 2.

Step 2: The filter will determine whether there is a quote on BOX which is equal to the NBBO.

- If NO, then the order is exposed on the BOX Book at the NBBO for a period of three seconds, during which time any Options Participant may execute against the order. At the conclusion of the three second period, if there is any remaining quantity, the filter will proceed to Step 3.
- If YES, then the order would execute against the quote/orders on the BOX Book.

Step 3: If there is any unexecuted quantity at the end of three seconds, then:

- In the case of Public Customer orders, a P/A Order will be generated and sent to the away exchange that is displaying the NBBO.
- In the case of P and P/A Orders, any unexecuted portion will be returned to the originating exchange.

In determining the length of time for an exposure period for orders which might otherwise trade through NBBO, but are "caught" by the filter, the BSE has determined that three seconds is ample time, in an electronic trading environment, for an Options

Participant to match the NBBO in those instances in which BOX is not quoting at the NBBO. This exposure period will give all the BOX Market Makers, as well as Participants in general, an opportunity to trade at the NBBO should they choose to do so.

**Proposed Chapter V, Section 17(c)** – The BSE has eliminated the provision which imposed a surcharge on Options Participants that submitted orders on behalf of broker-dealers in excess of two times the number of Public Customer contracts they executed in a given month. Similar to the rationale for the elimination of a charge to Market Makers set forth in Chapter VI, Section 4(e), discussed below, the BSE is concerned that such surcharges could be construed as a barrier to entry to BOX’s flat and open marketplace.

**Proposed Chapter V, Section 17, Supplementary Material .03** - Concurrent with changes to certain sections regarding Information Barriers and Directed Orders (see discussion below of Chapter VI, Section 5(c)), the BSE has added a provision detailing the obligations of OFPs and Market Makers in regards to communications of information about orders being submitted to the PIP, or otherwise directed. The obligations are set forth as follows:

“Prior to submitting an order to a PIP, an OFP cannot inform an Options Participant of any of the terms of the order, except as provided for in Chapter VI, Section 5(c) of these Rules. (See BSE Rules, Chapter II,

“Dealings on the Exchange”, Section 36, “Specialist Member Organizations Affiliated with an Approved Person”).

The BSE is confident that these measures, along with other protections set forth elsewhere in the BOX Rules, will ensure that adequate measures are in place to protect against the use or misuse of any material, non-public information by any BOX Participant in regard to any order entrusted to him/her.

**Proposed Chapter V, Section 18(b)** – The Exchange is not changing or adding language to this section, but notes that this section is not intended to replace best execution principles. Rather, the BSE is supplementing best execution standards by the language set forth herein.

**Proposed Chapter V, Section 18(c)** – Similar to the above discussion, the BSE has added language in this section regarding orders for which matching business has been found. Previously, the provision limited Participants to only utilizing the PIP for these types of orders. To allow more flexibility to OFPs, the BSE has determined that OFPs can execute such orders on the BOX Book, but only after one of the following two prerequisites have been met “(i) agency orders are first exposed to the BOX book for at least thirty (30) seconds, or (ii) the OFP has been bidding or offering on BOX for at least thirty (30) seconds prior to receiving an agency order that is executable against such bid or offer.” These two alternatives are not applicable to Market Makers, rather they must abide by the requirements of Chapter VI, Section 5(b) and (c), regarding Directed Orders,

discussed below. The first alternative requires exposing the order on the BOX Book for a period of thirty seconds before attempting to execute against it. Under the second alternative the OFP can execute the order immediately on the BOX Book if that OFP has been bidding or offering on the BOX Book for at least thirty seconds prior to receiving an agency order that is executable against such bid or offer. Additionally, the provisions state that an OFP must not otherwise deliberately attempt to effect a transaction, either under a single Participant or between two Participants, without following PIP procedures. With these provisions, the BSE is offering a OFP the flexibility of best-execution decision making, coupled with protections to ensure that Information Barriers are not breached, and that Participants are not acting in any way contrary to their customer's best interests.

**Proposed Chapter V, Section 18(e)** – In order to maximize the potential for price improvement of orders submitted to the PIP (which already, by definition, price improves all orders by at least one cent better than the NBBO), the BSE is requiring that in order for a PIP to commence there be at least three Market Makers quoting in a relevant series at the time a Participant submits a Primary Improvement Order to initiate a PIP. The BSE is confident that this requirement will be easily satisfied, given the accessibility to the BOX Market for Market Makers. Additionally, the BSE has clarified that a PIP will commence upon the dissemination of a broadcast message by BOX, which states “1) that a Primary Improvement Order has been processed by BOX, 2) which contains

information concerning series, size, price and side of market, and 3) states when a PIP will conclude.”

**Proposed Chapter V, Section 18(g)** – The BSE has added a new paragraph to Chapter V Section 18. This new paragraph provides that OFPs may access the PIP on behalf of customers that are not broker-dealers (i.e. Public Customers) via a new order type, the Customer PIP Order, or “CPO”. CPOs shall include terms that state a price in standard increments (five or ten cents) at which the order will be placed on the BOX Book, as well as a price in pennies at which the Public Customer wishes to participate in any PIPs that may occur while his/her order is on the BOX Book. In order for a CPO to be eligible for participation in a PIP, the CPO must be priced at or better than the NBBO. If a PIP commences in a relevant series and the CPO is at or better than the NBBO, then the OFP may, on behalf of the Public Customer, submit the CPO to the PIP for participation. Upon submission, the CPO will be treated similar to a Market Maker Improvement Order in the PIP, however, its terms cannot be cancelled or amended during the PIP.

The BSE believes that this provision will permit Public Customers greater control and flexibility in how their orders are handled on BOX. Public Customers will now be able to participate in PIPs. In addition, the BSE believes that offering to OFPs the prospect of this service on behalf of Public Customers will serve to increase the number of Participants competing in PIPs, ultimately leading to greater price improvement for orders on BOX.

The additions are as follows:

(h) “OFPs may provide access to the PIP on behalf of a customer that is not a broker-dealer (“Public Customer”) in the form of a Customer PIP Order (“CPO”) provided that:

- i. The terms of each CPO shall include a price stated in rounded five cent or ten cent increments, as appropriate, (“standard tick”) at which the order shall be placed in the BOX Book (“BOX Book Reference Price”) as well as a specific price stated in one cent increments (“penny tick”) at which the Public Customer wishes to participate in any PIPs (“CPO PIP Reference Price”) that may occur while his order is on the BOX Book and displayed at the BOX Book Reference Price;
- ii. The terms of each CPO shall include a specific order size (“CPO Total Size”). The number of contracts that may be entered into a PIP must be equal to the lesser of (a) the CPO Total Size remaining on the BOX Book or (b) the size of the Primary Improvement Order submitted to the PIP;
- iii. In order for the CPO to be eligible for participation in a PIP in the subject options series, the BOX Book Reference Price for a CPO at the time a PIP commences must be equal to the NBBO.

- iv. The CPO may only participate in a PIP on the same side of the market as the Primary Improvement Order.
- v. Upon initiation of a PIP for which a CPO is eligible to participate pursuant to paragraphs (i)-(iv) above, the OFP who submitted the CPO to the BOX Book must submit a CPO to the PIP at the CPO PIP Reference Price.
- vi. The terms of any CPO submitted to a PIP may not be amended or cancelled at any time during a PIP;”

**Proposed Chapter V, Section 19(a)** – To clarify that a Market Maker Prime cannot be both the Market Maker Prime and the party who initiated the process in the same PIP, thereby guarantying receipt of more than 40% of any allocation resulting from that PIP, the BSE has added a provision that “the Market Maker Prime must not have submitted the Primary Improvement Order to commence the relevant PIP.”

**Proposed Chapter V, Section 27(b)(i)** – In order to remain consistent with similar rules regarding Complex Orders on other options exchanges, the BSE has added an exception which sets forth that Complex Orders with net price increments that are not multiples of the minimum increments are not entitled to trade ahead of other interest at the BOX best bid and offer.

**Proposed Chapter VI, Section 4(e)** – The BSE deleted the provision which imposed a monetary penalty on Market Makers who transacted business in classes outside of their

appointments. Rather than a specific monetary penalty, which may have been construed as a barrier to entry to the BOX Market, the BSE has chosen to mirror provisions common on other options exchanges that permit Market Makers to trade outside of their appointments. This amendment also sets forth an execution percentage requirement that Market Makers must meet within the classes to which they are appointed. The additions are as follows:

“Market Makers may transact business outside of their appointments, but the total number of contracts executed during a quarter by a Market Maker in options classes to which it is not appointed may not exceed twenty-five percent (25%) of the total number of contracts traded by such Market Maker.”

**Proposed Chapter VI, Section 5(b) and (c); Section 10(g) and (h)** – To clarify the intention that Market Makers would be able to handle orders on an agency basis directed to them by OFPs, the BSE has changed “Customer Order” to “Directed Order” throughout Section 5, as well as in Section 10, which addresses Information Barriers. As previously discussed above, in the Definitions section of Chapter I, a Directed Order would be defined as an order directed to a Market Maker by an OFP. An OFP would send a Directed Order to BOX with a designation of the Market Maker to whom the order is to be directed. BOX would route the Directed Order to the appropriate Market Maker.

Proposed Sections 5(b) and (c) concern the requirements for a Market Maker who would handle a Directed Order. To address any concerns regarding informational barriers and the transfer of information, intended or not, which may accompany a

Directed Order, under proposed Section 5(c)(i) the BSE would prohibit a Market Maker from rejecting a Directed Order. Under proposed Section 5(c)(ii), a Market Maker only has two choices when he receives a Directed Order: 1) submit the order to the PIP process; or 2) send the order back to BOX for placement onto the BOX Book. If a Market Maker chooses to submit the Directed Order to the PIP process and he is currently quoting at a price equal to the NBBO, he must not adjust his quote prior to submitting such Directed Order to the PIP process.

Proposed Section 5(c)(iii) addresses the requirements when a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book. The following steps describe the Directed Order process from this point:

Step 1: Does the Market Maker who is sending the Directed Order to BOX have a quote on the opposite side of the Directed Order equal to the NBBO?

- If YES, then proceed to step 4.
  
- If NO, then proceed to step 2.

Step 2: The Market Maker would submit the Directed Order to BOX. The BOX trading engine would determine if the Directed Order is executable against the NBBO (the answer is “yes” in the case of a Directed Order that is also a BOX-Top Order).

- NO, then BOX would place the Directed Order on the BOX Book to be treated as any other order.
- If YES, then BOX would proceed to Step 3.

Step 3: BOX would determine whether there are any quotes/orders on the BOX Book which are equal to the NBBO.

- If NO, then BOX would submit the Directed Order to the trade-through filter process pursuant to proposed Chapter V, Section 16(b), described above.
- If YES, then BOX would execute the Directed Order against the quotes/orders on the BOX Book. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

Step 4: If a Market Maker's quote on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker would determine if the Directed Order is executable against the NBBO.

- If NO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book to be treated as any other order.
- If YES, then the Market Maker must guarantee execution of the Directed Order at the current NBBO for at least the size of his current quote. This guarantee would be defined as a Guaranteed Directed Order (“GDO”).

Step 5: The Market Maker must then immediately send the Directed Order and the GDO to BOX.

Step 6: Upon receipt of the Directed Order and the GDO, BOX would execute the Directed Order against any quotes/orders already on the BOX Book, except the quote of the Market Maker who submitted the Directed Order and GDO.

Step 7: If there is any quantity remaining of the Directed Order, then BOX would send to all BOX Participants a Directed Order Broadcast (“DOB”) message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order.

Step 8: The Market Maker would be prohibited from executing for his proprietary account against the Directed Order for at least three seconds. During that time the Market Maker would not be allowed to decrement the size or worsen the price of his GDO. However, he would be able to increase the size of his GDO or improve its price (in standard five or ten cent increments only). During that period, any BOX Participant,

except the Market Maker who submitted the Directed Order to BOX, may submit an order to the BOX Book in response to the DOB. Such a DOB response order would be treated as a BOX Limit Order. During that three second period, any order submitted to the BOX Book that matches any order(s) on the BOX Book, except the Market Maker's GDO, would be executed.

If the Market Maker received a subsequent Directed Order during this period, pursuant to subparagraphs (c)(ii) and (iii), he would be able to either submit it to the PIP process or send it to the BOX Book, following the same process as for the first Directed Order. BOX would process any subsequent Directed Orders in sequence as they are submitted to BOX for either the PIP process or for placement on the BOX Book. Any remaining quantity of a Directed Order that may be placed on the BOX Book, such as at the end of either step 3 (above) or step 9 (below), is treated like other orders placed on the BOX Book. Therefore, the remaining quantity may execute against another Directed Order on the opposite side of the market, whether that second Directed Order is submitted to the PIP process or placed on the BOX Book.

Step 9: Three seconds after sending the DOB, BOX would release the remaining quantity of the Directed Order to the BOX Book. At that time, BOX would immediately execute any orders on the BOX Book, including those submitted in response to the DOB, against the Directed Order on a price-time priority basis. However, the BOX trading engine would ensure that the GDO would yield priority to all such competing orders at

the same price. If there is still any quantity remaining of the Directed Order, it would be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

The BSE believes that use of the DOB and the exposure of the Directed Order to the BOX market will serve to ensure that a Market Maker would not be able to act against the Directed Order using any privileged or other information regarding that order. In addition, the BSE has eliminated the exemption in Section 10(g) and amended Section 10(h) in order to clarify that Market Makers must comply with all provisions of the Section 10 when they receive and handle Directed Orders. In total, these amendments will ensure that Directed Orders are not disadvantaged or treated inconsistent with the BOX or BSE Rules.

The pertinent rule additions are as follows:

Section 5-

(c) When acting as agent for a Directed Order, a Market Maker must comply with subparagraphs (i) – (iii) of this Paragraph (c).

- i. A Market Maker that receives a Directed Order shall not, under any circumstances, reject the Directed Order.
- ii. Upon receipt of a Directed Order a Market Maker must either:

- 1) Submit the Directed Order to the PIP process, pursuant to Chapter V, Section 18 of these Rules. Under this option, if the Market Maker is currently quoting at a price on the opposite side of the Directed Order equal to the NBBO, he is prohibited from adjusting his quotation prior to submitting the Directed Order to the PIP process.

-or-

- 2) Send the Directed Order to the BOX Book pursuant to subparagraph (c)(iii) below.
- iii. When a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book, the following requirements shall apply:
- 1) If the Market Maker's quotation on the opposite side of the market from the Directed Order is not equal to the NBBO, then the Market Maker must send the Directed Order to BOX.
    - a. The Trading Host will determine if the Directed Order is executable against the NBBO.

1. If the order is not executable against the NBBO, then the Trading Host will enter the Directed Order onto the BOX Book for processing consistent with all non-executable orders.
2. If the Directed Order is executable against the NBBO, then the Trading Host will determine if there are any orders on the BOX Book equal to the NBBO.
  - i. If there are no orders on the BOX Book equal to the NBBO, then the Trading Host will filter the Directed Order against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules.
  - ii. If there are orders on the BOX Book equal to the NBBO, then the Trading Host will execute the Directed Order against those orders. Any remaining

quantity will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

- 2) If the Market Maker's quotation on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker will determine if the Directed Order is executable against the NBBO.
  - a. If the order is not executable against the NBBO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book for processing consistent with all non-executable orders.
  - b. If the order is executable against the NBBO, then the Market Maker shall guarantee execution of the Directed Order at the current NBBO for at least the size of his quote. This guarantee shall be called a Guaranteed Directed Order ("GDO"). The Market

Maker must immediately send the Directed Order with the GDO to the Trading Host.

1. The Market Maker who submitted the Directed Order and the GDO to the Trading Host:

- i. Shall not submit to the BOX Book a contra order to the Directed Order for his proprietary account until the Directed Order is released to the BOX Book pursuant to subparagraph (c)(iii)(2)(b)(4) below.
- ii. Shall not decrement the size or worsen the price of his GDO.
- iii. May increase the size of his GDO.
- iv. May improve the price of his GDO (only in five or ten cent minimum trading increments, as applicable pursuant to Chapter V, Section 6 of these Rules).

- v. Upon receipt of a subsequent Directed Order, may either submit it to the PIP process or send it to the BOX Book pursuant to subparagraphs (c)(ii) and (iii).
2. Upon receipt of the Directed Order, the Trading Host will execute the Directed Order against any matching orders on the BOX Book, except the order of the Market Maker who submitted the Directed Order.
3. If there is any quantity remaining of the Directed Order, then BOX will send to all BOX Participants a Directed Order Broadcast (“DOB”) message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order. For the following three seconds, any BOX Participant, except the Market Maker who submitted the Directed Order, may submit an order to the BOX Book in response to the DOB. Such a

DOB response order will be treated as a BOX  
Limit Order.

4. During the three second period following the  
DOB, any order submitted to the BOX Book  
that matches an order already on the BOX  
Book will be executed. Three seconds after  
the DOB, the Trading Host will release the  
remaining quantity of the Directed Order to  
the BOX Book. At that time, the Trading  
Host will immediately execute any orders on  
the BOX Book against the Directed Order on  
a price-time priority basis. The GDO shall  
yield priority to all such competing orders at  
the same price. Any remaining quantity of  
the Directed Order will be filtered against  
trading through the NBBO according to the  
procedures set forth in Chapter V,  
Section 16(b) of these Rules and, if  
applicable, placed on the BOX Book.

**Proposed Chapter VI, Section 6(b) and (f)** - BOX Market Makers undertake a  
meaningful obligation to provide continuous two-sided markets. These obligations

include the requirement that quotations be for a size of at least ten contracts, and within the legal width of the market. Under the amendments to the proposed rules, a Market Maker must respond to a Request for Quote (“RFQ”) message within fifteen seconds, with a similarly valid quotation. The Exchange believes that this fifteen second period is ample time for a Market Maker to respond in an automated market, particularly given other BOX features, such as the PIP, which require a much shorter response time. Nevertheless, realizing that an RFQ may require a Market Maker to furnish a quote where he might not otherwise choose to, the BSE is proposing that fifteen seconds is a sufficient amount of time in which to enable a Market Maker to generate a meaningful quotation response. Although the BSE is confident that it has provided a marketplace which will be robust and liquid, the delineated responsibilities added to this section will serve to guarantee that Market Makers provide liquidity to the market, and do so on a continuous basis.

In paragraph (f) the BSE has changed the time period to six months for which the Board would have exemptive authority to grant Market Makers exemptions from the requirements of paragraph (e)(iii) of this Section 6. The added language to Section 6(b) is set forth as follows:

- ii. “If a Market Maker is not already posting a valid (i.e. for ten contracts, within the legal width of the market, as applicable) two-sided quote in a series in a class in which he is appointed as Market Maker, he

must post a valid two-sided quote within fifteen (15) seconds of receiving any RFQ message issued. The valid two-sided quote so posted must be retained by the Market Maker for at least thirty (30) seconds.

iii. Every RFQ message issued, and every responsive quote, must be for a minimum size of at least ten contracts, and must be within the legal width of the market, as applicable.”

**Proposed Chapter VIII, Section 7** – The BSE has added anti-money laundering provisions similar to the rules in place on other exchanges.

**Proposed Chapter XI** - To clarify that OFPs, as opposed to Options Participants generally, are the only types of Participants that can deal directly with the public, the BSE has changed the references to “Options Participants” to “OFPs” throughout Chapter XI, “Doing Business with the Public”.

**Proposed Chapter XII** – As with all options exchanges, the BSE is adding Intermarket Linkage Rules to the BOX Rules. These rules are substantially similar to the rules in place on all of the options exchanges. Several Comment Letters expressed concern regarding BOX’s participation in the Intermarket Linkage Plan. Subject to Commission approval, BOX, through the BSE, would become a full participant in the Intermarket Linkage Plan (“Linkage” or “Plan”) for the options markets. As such, BSE would comply with the obligations of the Plan and has added Intermarket Linkage Rules to the

BOX Rules. The following is an overview of how the BOX Market would interact in the Plan and is not intended to be a comprehensive discussion of how the proposed Intermarket Linkage Rules of Chapter XII of the BOX Rules apply to Options Participants:<sup>18</sup>

**Principal (“P”) Orders Sent From BOX to Away Markets**

A BOX Eligible Market Maker (“BEMM”)<sup>19</sup> may submit a P order to the BOX trading engine for routing to one or more away markets provided the following conditions are satisfied:

- The BEMM is a BOX Market Maker on the class for which the P order is submitted.
- The BEMM has complied with the Plan’s “80/20 rule” for the previous calendar quarter.
- Prior to sending the P order, the BEMM is posting a bid and an offer for at least ten contracts within the allowable price spread for the class.

Provided the above conditions are met, the BOX trading engine would automatically route the BEMM’s P order to the designated exchange and transmit back any responses (e.g. order executions, rejections) that BOX receives from the away market via OCC.

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<sup>18</sup> See Proposed BOX Rules, Chapter XII (Intermarket Linkage Rules).

<sup>19</sup> A BOX Market Maker who meets the requirements of an Eligible Market Maker as set forth in the Plan.

**P Orders Sent From Away Markets to BOX**

Orders sent to BOX by Eligible Market Makers (as set forth in the Plan) from away exchanges via the Linkage are processed as though they were orders received directly from a BOX Participant. That is, these orders would execute automatically on the BOX trading engine against any orders on the BOX Book up to either the quantity on the BOX Book at that price or the actual quantity of the P order, whichever is less, but in no event for less than ten contracts. BOX would automatically attempt to fill any remaining quantity by exposing the unexecuted portion at the NBBO for three seconds to all BOX Participants.

**Principal-as-Agent (“PA”) Orders Sent From BOX to Away Markets**

To ensure that there is an Eligible Market Maker per Eligible Class (as those terms are defined in the Plan) for the submission of PA and Satisfaction orders to away markets, BOX would specifically designate a BEMM in each Eligible Class traded on BOX responsible for such orders. The BEMM would adhere to the responsibilities of an Eligible Market Maker as set forth in the Plan.

Only orders submitted by BOX Participants on behalf of Public Customer accounts may generate a PA order. Each Public Customer order is checked against the NBBO using BOX’s trade-through filter mechanism as set forth in Chapter V, Section 16(b) (described above). If BOX is not matching the away best price, the order is exposed to BOX Participants for three seconds at the NBBO price.

At the end of this three second period, if the order is not fully executed and a better price exists at an away exchange(s), a PA order is generated automatically by the BOX and routed to the away exchange with the required BEMM, clearing and valid-clearing-firm (“VCF”) information included. Each execution received from an away exchange results in the automatic generation of a trade execution on BOX between the original Public Customer Order and the BEMM.

#### **PA Orders Sent From Away Markets to BOX**

In the case when BOX receives PA orders from away markets but BOX is no longer quoting at the NBBO then such PA orders are filtered against trade-throughs in the same manner as Public Customer orders submitted by BOX Participants as set forth in Chapter V, Section 16(b), described above. If their execution would cause a trade-through, the PA orders are exposed to BOX Participants for three seconds at the NBBO price. If PA orders are not fully executed at the end of this period, the residual quantity is canceled back to the originating away exchange. In this manner PA orders are afforded the same opportunity for execution as BOX Public Customer orders.

#### **Satisfaction (“S”) Orders Sent From BOX to Away Markets**

Each BOX Participant may request, on behalf of a Public Customer, that BOX route an S order to an away market for orders on BOX that were traded through by the away market. BOX would systemically verify the validity of the request (e.g. as to Public Customer status, time stamp of order prior to report of trade-through), and, if valid, generate a S order with the required BEMM, clearing and VCF information included. As

execution confirmation is received from the away market, the BOX trading engine would automatically generate offsetting trades between the original BOX Public Customer order and the BEMM.

**Satisfaction Orders Sent From Away Markets to BOX**

S orders received from away markets are systemically verified (e.g. as to Public Customer status, time of trade-through on BOX). Once verified, the BOX Participant that caused the trade-through is identified and, within three minutes, the S order is executed against that BOX Participant. Where there were multiple S orders, the executions are made pro rata with the total not to exceed the lesser of the trade which caused the trade-through or the total quantity of the S orders.

**Proposed Chapter XIII** - The BSE is adding a new Chapter, entitled “Margin Requirements,” to its proposed BOX Rules. Similar to the approach of at least one other options exchange<sup>20</sup>, the BSE proposes to require that BOX Participants and associated persons, among other things, adhere to the requirements of either the New York Stock Exchange (“NYSE”) or the Chicago Board Options Exchange (“CBOE”), as those rules may be in existence from time to time. Additionally, in order to ensure that the BOX Rules adequately address situations involving Joint Back Office (“JBO”) arrangements for Participants who are not an NYSE member and have elected to be bound by CBOE margin requirements, the BSE has included in the BOX margin requirements a set of

rules specifically addressing JBO arrangements. In this way, the Exchange is ensuring that its margin rules cross reference other exchanges' rules as appropriate, and, where not sufficient, adequately provide for the necessary requirements.

**Basis**

The Exchange believes that this proposal is consistent with Section 6(b) of the Act,<sup>21</sup> in general, and furthers the objectives of Section 6(b)(5),<sup>22</sup> in particular, in that it is designed to facilitate transactions in securities; to prevent fraudulent and manipulative acts and practices; to promote just and equitable principles of trade; to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities; to remove impediments to and perfect the mechanism of a free and open market and a national market system; and in general, to protect investors and the public interest.

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<sup>20</sup> See e.g. ISE Rule 1202.

<sup>21</sup> 15 U.S.C. 78f(b).

<sup>22</sup> 15 U.S.C. 78f(b)(5).

**B. Self-Regulatory Organization's Statement on Burden on Competition**

The Exchange does not believe that the proposed rule change would impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

**C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others**

Written comments on the proposed rule change were neither solicited nor received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within 35 days of the date of publication of this notice in the Federal Register or within such longer period (i) as the Commission may designate up to 90 days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will--

- (A) by order approve such rule change, or
- (B) institute proceedings to determine whether the proposed rule change should be disapproved.

**IV. Solicitation of Comments**

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposal is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. §552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Copies of such filing will also be available for inspection and copying at the principal office of the BSE. All submissions should refer to File No. SR-BSE-2002-XX and should be submitted by \_\_\_\_\_, 2003.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.

Jonathan G. Katz,  
Secretary

## EXHIBIT A

### Text of the Proposed Rule Change:

## RULES OF THE BOSTON OPTIONS EXCHANGE FACILITY

### Trading of options contracts on BOX

#### CHAPTER I. GENERAL PROVISIONS

##### Sec. 1 Definitions

(a) With respect to these BOX Rules, the following terms shall have the meanings specified in this Section 1. A term defined elsewhere in the Rules of the Exchange shall have the same meaning with respect to this Chapter I, unless otherwise defined below.

- (1) The term “**aggregate exercise price**” means the exercise price of an options contract multiplied by the number of units of the underlying security covered by the options contract.
- (2) The term “**American-style option**” means an options contract that, subject to the provisions of Chapter VII, Section 1 of these BOX Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, may be exercised at any time from its commencement time until its expiration.
- (3) The term “**associated person**” or “**person associated with a Participant**” means any partner, officer, director, or branch manager of an Options Participant (or any person occupying a similar status or performing similar functions), any person directly or indirectly controlling, controlled by, or under common control with a Participant or any employee of a Participant.
- (4) The term “**bid**” means a limit order to buy one or more options contracts.

- (5) The term **“Board”** means the Board of Directors of Boston Options Exchange Regulation LLC.
- (6) The term **“BOX”** means the Boston Options Exchange or Boston Stock Exchange Options Exchange, an options trading facility of the Exchange under Section 3(a)(2) of the Exchange Act.
- (7) The term **“BOX Rules”** or **“Rules of BOX”** means the Rules of the Boston Options Exchange Facility.
- (8) The term **“BOX Transaction”** means a transaction involving an options contract that is effected on or through BOX or its facilities or systems.
- (9) The term **“BOXR”** or **“BOX Regulation”** means Boston Options Exchange Regulation LLC, a wholly-owned subsidiary of the Exchange.
- (10) The term **“BSE Rules”** means the Rules of the Board of Governors of the Boston Stock Exchange, Inc.
- (11) The term **“call”** means an options contract under which the holder of the option has the right, in accordance with the terms of the option, to purchase from the Clearing Corporation the number of shares of the underlying security covered by the options contract.
- (12) The term **“Central Order Book”** or **“BOX Book”** means the electronic book of orders maintained by the BOX Trading Host.
- (13) The term **“class of options”** means all options contracts of the same type and style covering the same underlying security.
- (14) The term **“Clearing Corporation”** means The Options Clearing Corporation.
- (15) The term **“Clearing Participant”** means a Participant that is self-clearing or a Participant that clears BOX Transactions for other Participants of BOX.
- (16) The term **“closing purchase transaction”** means a BOX Transaction that reduces or eliminates a short position in an options contract.

- (17) The term **“closing writing transaction”** means a BOX Transaction that reduces or eliminates a long position in an options contract.
- (18) The term **“covered short position”** means (i) an options position where the obligation of the writer of a call option is secured by a “specific deposit” or an “escrow deposit” meeting the conditions of Rules 610(f) or 610(g), respectively, of the Rules of the Clearing Corporation, or the writer holds in the same account as the short position, on a share-for-share basis, a long position either in the underlying security or in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or less than the exercise price of the options contract in such short position; and (ii) an options position where the writer of a put option holds in the same account as the short position, on a share-for-share basis, a long position in an options contract of the same class of options where the exercise price of the options contract in such long position is equal to or greater than the exercise price of the options contract in such short position.
- (19) The term **“Customer”** means either a Public Customer or a broker-dealer.
- (20) The term **“Customer Order”** means an agency order for the account of either a Public Customer, as defined herein, or a broker-dealer.
- (21) The term **“Directed Order”** means any Customer Order to buy or sell which has been directed to a particular Market Maker by an OFP.
- (22) [(21)] The term **“discretion”** means the authority of a broker or dealer to determine for a Customer the type of option, the class or series of options, the number of contracts, or whether options are to be bought or sold.
- (23) [(22)] The term **“European-style option”** means an options contract that, subject to the provisions of Chapter VII, Section 1 of these Rules (relating to the cutoff time for exercise instructions) and to the Rules of the Clearing Corporation, can be exercised only on its expiration date.

- [\(24\)](#) [(23) ]The term “**Exchange**” means the Boston Stock Exchange, Inc.
- [\(25\)](#) [(24) ]The term “**Exchange Act**” means the Securities Exchange Act of 1934, as amended, or Rules thereunder.
- [\(26\)](#) [(25) ]The term “**exercise price**” means the specified price per unit at which the underlying security may be purchased or sold upon the exercise of an options contract.
- [\(27\)](#) [(26) ]The terms “**he,**” “**him**” or “**his**” shall be deemed to refer to persons of female as well as male gender, and to include organizations, as well as individuals, when the context so requires.
- [\(28\)](#) [(27) ]The term “**index option**” means, as the context requires, either an options contract that is an option on an index of equity securities prices or a contract on a tradable instrument which tracks such prices.
- [\(29\)](#) [(28) ]The term “**individual equity option**” means an options contract which is an option on an equity security.
- [\(30\)](#) [(29) ]The term “**long position**” means a person's interest as the holder of one or more options contracts.
- [\(31\)](#) [(30) ]The term “**Market Regulation Center**” or “**MRC**” means the Exchange’s facilities for surveilling and regulating the conduct of business for options on BOX.
- [\(32\)](#) [(31) ]The term “**Market Maker**” means an Options Participant registered with the Exchange for the purpose of making markets in options contracts traded on the Exchange and that is vested with the rights and responsibilities specified in Chapter VI of these Rules. All Market Makers are designated as specialists on the Exchange for all purposes under the Exchange Act or Rules thereunder.
- [\(33\)](#) [(32) ]The term “**NBBO**” means the national best bid or offer as calculated by BOX based on market information received by BOX from OPRA.
- [\(34\)](#) [(33) ]The term “**offer**” means a limit order to sell one or more options contracts.

- [\(35\)](#) [(34)] The term “**opening purchase transaction**” means a BOX Transaction that creates or increases a long position in an options contract.
- [\(36\)](#) [(35)] The term “**opening writing transaction**” means a BOX Transaction that creates or increases a short position in an options contract.
- [\(37\)](#) [(36)] The term “**options contract**” means a put or a call issued, or subject to issuance by the Clearing Corporation pursuant to the Rules of the Clearing Corporation.
- [\(38\)](#) [(37)] The term “**options market close**” or “**market close**” means the time specified by BOX for the cessation of trading in contracts on BOX for options on that market day.
- [\(39\)](#) [(38)] The term “**options market open**” or “**market open**” means the time specified by BOX for the commencement of trading in contracts on BOX for options on that market day.
- [\(40\)](#) [(39)] The term “**Options Participant**” or “**Participant**” means a firm, or organization that is registered with the Exchange pursuant to Chapter II of these Rules for purposes of participating in options trading on BOX as an “Order Flow Provider” [and/]or “Market Maker”.
- [\(41\)](#) [(40)] The term “**Options Principal**” means a person engaged in the management and supervision of the Options Participant's business pertaining to options contracts who has responsibility for the overall oversight of the Options Participant's options related activities on the Exchange.
- [\(42\)](#) [(41)] The term “**Options Official**” means an officer of BOX Regulation vested by the BOX Regulation Board with certain authority to supervise option trading on BOX.
- [\(43\)](#) [(42)] The term “**Options Participation Agreement**” means the agreement to be executed by Options Participants to qualify to participate on BOX.
- [\(44\)](#) [(43)] The term “**OPRA**” means the Options Price Reporting Authority.

- (45) [(44)] The term **“order”** means a firm commitment to buy or sell options contracts as defined in Section 14 of Chapter V (Order Entry).
- (46) [(45)] The terms **“Order Flow Provider” or “OFP”** [means] mean those Options Participants representing as agent Customer Orders on BOX and those non-Market Maker Participants conducting proprietary trading.
- (47) [(46)] The term **“outstanding”** means an options contract which has been issued by the Clearing Corporation and has neither been the subject of a closing writing transaction nor has reached its expiration date.
- (48) [(47)] The term **“pre-opening”** means the period immediately prior to the market open on BOX, beginning at a time specified by BOX, during which Participants may log on to the Trading Host and submit, amend and withdraw orders, but no trading can occur.
- (49) [(48)] The term **“primary market”** means the principal market in which an underlying security is traded.
- (50) [(49)] The term **“Public Customer”** means a person that is not a broker or dealer in securities.
- (51) [(50)] The term **“Public Customer Order”** means an order for the account of a Public Customer.
- (52) [(51)] The term **“put”** means an options contract under which the holder of the option has the right, in accordance with the terms and provisions of the option and the Rules of the OCC, to sell to the Clearing Corporation the number of units of the underlying security covered by the options contract, at a price per unit equal to the exercise price, upon the timely exercise of such option.
- (53) [(52)] The term **“quote” or “quotation”** means a bid or offer entered by a Market Maker as a firm order that updates the Market Maker's previous bid or offer, if any.
- (54) [(53)] The term **“Request for Quote” or “RFQ” shall mean a message that may be issued by an Options Participant in order to signal an interest in an options series and request response from other Participants. The RFQ contains only the series symbol and quantity and is broadcast to all Participants.**

- [\(55\)](#) [The term](#) **“Responsible Person”** shall mean a United States-based officer, director or management-level employee of an Options Participant, who is registered with the Exchange as an Options Principal, responsible for the direct supervision and control of associated persons of that Options Participant.
- [\(56\)](#) [\[\(54\)\]](#) The term **“Rules of the Clearing Corporation”** or **“Rules of the OCC”** means the Certificate of Incorporation, the By-Laws and the Rules of the Clearing Corporation, and all written interpretations thereof, as may be in effect from time to time.
- [\(57\)](#) [\[\(55\)\]](#) The term **“Rules of the Exchange”** means the Constitution and Rules of the Board of Governors of the Boston Stock Exchange, Incorporated, the Plan of Delegation of Functions and Authority by the Boston Stock Exchange, Inc. to Boston Options Exchange Regulation, LLC, the By-Laws of Boston Options Exchange Regulation and, where applicable, the BOX Rules.
- [\(58\)](#) [\[\(56\)\]](#) The term **“SEC”** or **“Commission”** means the United States Securities and Exchange Commission.
- [\(59\)](#) [\[\(57\)\]](#) The term **“series of options”** means all options contracts of the same class of options having the same exercise price, expiration date and unit of trading.
- [\(60\)](#) [\[\(58\)\]](#) The term **“session end”** means the period immediately following Market Close, ending at a time specified by BOX, during which Participants may withdraw any GTC orders that they do not wish to remain in the market for the following market day.
- [\(61\)](#) [\[\(59\)\]](#) The term **“short position”** means a person's interest as the writer of one or more options contracts.
- [\(62\)](#) [\[\(60\)\]](#) The term **“SRO”** means a self-regulatory organization as defined in Section 3(a)(26) of the Exchange Act.
- [\(63\)](#) [\[\(61\)\]](#) The term **“Trading Host”** means the automated trading system used by BOX for the trading of options contracts.
- [\(64\)](#) [\[\(62\)\]](#) The term **“type of option”** means the classification of an options contract as either a put or a call.
- [\(65\)](#) [\[\(63\)\]](#) The term **“uncovered”** means a short position in an options contract that is not covered.

(66) [(64)] The term “**underlying security**” means the security that the Clearing Corporation shall be obligated to sell (in the case of a call option) or purchase (in the case of a put option) upon the valid exercise of an options contract.

## **Sec. 2 Applicability**

(a) These are the Rules of the Boston Stock Exchange applicable to the trading of options contracts issued by The Options Clearing Corporation on the Boston Stock Exchange through the Exchange’s Boston Options Exchange Facility, BOX, the terms and conditions of such contracts, the exercise and settlement thereof, the handling of orders, and the conduct of accounts and other matters relating to options trading on BOX.

(b) Except to the extent that specific BOX Rules govern or unless the context otherwise requires, the provisions of the Boston Stock Exchange, Incorporated’s Constitution of the Exchange and the Rules of the Board of Governors of the Exchange shall be applicable to Options Participants and to the trading of option contracts on BOX and, for purposes of their application with respect to Options Participants and options trading, shall be interpreted in light of the nature of options trading and the BOX market, and the fact that options on BOX shall be traded electronically through the Trading Host. To the extent that the provisions of this Chapter are inconsistent with any other provisions of the Rules of the Exchange, this Chapter shall control.

(c) For the purposes of cross-referencing, interpreting and applying the Rules of the Exchange to the BOX Rules: 1) a reference to "members" of the Boston Stock Exchange shall be functionally equivalent to "Participants" in BOX, whether Order Flow Providers, BOX Market Makers, or both; and 2) a reference to "specialists", when referenced in the Rules of the Exchange shall be functionally equivalent to BOX Market Makers.

(d) For marketing and other purposes, the Boston Options Exchange Facility may be referred to as the “Boston Stock Exchange Options Exchange” or “Boston Options Exchange” or “BOX”.

(e) These Rules generally require Options Participants conducting business with the public to comply with applicable requirements of the United States federal securities laws and regulations promulgated thereunder by the Securities and Exchange Commission. To the extent that certain aspects of the federal securities laws and regulations promulgated thereunder do not apply to non-U.S. firms conducting business with non-U.S. customers, these Rules shall be interpreted accordingly, so long as such interpretation is consistent with the maintenance of a fair and orderly options market. In such case, however, such non-U.S. Options Participants must comply with all reasonably

comparable laws and regulations of their home countries or of the home countries of their customers, as applicable.

## CHAPTER II. PARTICIPATION

### Sec. 1 Options Participation

(a) These Rules establish a new category of Exchange participation called “Options Participant.” Only Options Participants may transact business on BOX via the Trading Host. Options Participants may trade options for their own proprietary accounts or, if authorized to do so under applicable law, and consistent with these BOX Rules and with applicable law and SEC rules and regulations, may conduct business on behalf of Customers.

(b) A prospective Options Participant must:

- i. complete an application in the form prescribed by the Exchange;
- ii. provide such other information as required by the Exchange;
- iii. satisfy the qualification requirements for Options Participant status specified in the Options Participant application; and
- iv. enter into an Options Participant Agreement in the form specified by the Exchange, agree to abide by the same as it has been or shall be from time to time amended, and pledge to abide by the, Rules of the Exchange, as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Rules of the Exchange; except that existing Exchange Members, and their Member firms, shall automatically become Options Participants upon execution of an Options Participant Agreement and payment of the appropriate Options Participant application fee and other fees as the Exchange shall prescribe; and
- v. be under the supervision and control of a Responsible Person.

(c) Upon completion of the application, the Exchange, or person(s) designated by the Exchange (“designee”) shall consider whether to approve the application, unless there is just cause for delay. In its consideration process, the Exchange may conduct such investigation as it deems appropriate and may take such steps as it deems necessary to confirm the information provided by the applicant. Within 30 days after the Exchange or its designee has completed its consideration of an application, it shall provide written notice of the action of the Exchange, specifying in the case of disapproval of an application the grounds therefore. (See Constitution of the Boston Stock Exchange, Inc.

(“Constitution”), Article IX, “Membership”, Section 6, “Investigation and Acceptance by Exchange”).

(d) These BOX Rules place no limit on the number of qualifying entities that may become Options Participants. However, based on system constraints or capacity restrictions, approval of qualifying applications for Options Participants may, in limited circumstances, be temporarily deferred. To the extent that the Board places limitations on otherwise qualified applicants to act as Options Participants, such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Act.

(e) Options Participant status does not confer on the Options Participant any right to participate in trading on the Exchange other than options trading on BOX via the Trading Host, nor shall Options Participants be entitled to all the rights and responsibilities regarding the governance of the Exchange as other Exchange Members. Rights and responsibilities of Options Participants are determined solely by the Rules of the Exchange and these BOX Rules.

(f) Options Participant status cannot be leased or transferred except in the event of a change in control or corporate reorganization involving an Options Participant. In such a case, Options Participant status may be transferred to a qualified affiliate or successor upon written notice to the Exchange or its designee.

(g) Every Options Participant shall file with BOXR and keep current an address where notices may be served, including current addresses of each Responsible Person, as specified in Paragraph (b)(v) of this Section 1.

## **Sec. 2 Qualification Requirements for Options Participation**

(a) Options Participants may be corporations, partnerships, limited liability companies or sole proprietorships organized under the laws of a jurisdiction of the United States, or such other jurisdictions as the Exchange may approve.

(b) Options Participants must be registered as broker-dealers pursuant to Section 15 of the Exchange Act[, and must be assigned to a Designated Options Examining Authority (“DOEA”) pursuant to Rule 17d-2 of the Exchange Act].

(c) Options Participants must be Clearing Participants or establish a clearing arrangement with a Clearing Participant.

(d) Options Participants must meet the capital requirements of the Exchange or [another options SRO to which its DOEA requirements apply]Rule 15c3-1 of the

Exchange Act, whichever is greater[. (See Boston Stock Exchange, Inc.], and shall further comply with the additional requirements of Sections 1 and 2 of Chapter XXII of the Rules of the Board of Governors of the Boston Stock Exchange, Inc. (“BSE Rules”). (See, Chapter XXII, “Financial Reports and Requirements”, Sections 1 and 2, generally). (All cross references to the BSE Rules hereinafter will be referred to as such).

(e) Options Participants must have demonstrated ability to adhere to [the BOX Rules regarding]all applicable Exchange, SEC, the Clearing Corporation and Federal Reserve Board policies, rules and regulations, including those concerning record-keeping, reporting, finance and trading[, recordkeeping, confidentiality,]procedures and be able to satisfactorily demonstrate reasonably adequate systems capability and capacity[, etc]. (See BSE Rules Chapter XXII, “Financial Reports and Requirements”, Sections 1 and 2, generally; Chapter II, “Dealings on the Exchange”, Sections 15, “Record of Orders from Offices to Floor”, and 36 “Specialist Member Organizations Affiliated with an Approved Person”).

(f) All associated persons of Options Participants who are not themselves Responsible Persons must be under the supervision of a U.S.-based Responsible Person.

(g) A Participant that does not maintain an office in the United States responsible for preparing and maintaining financial and other reports required to be filed with the Commission, BOXR and the Exchange must:

- i. prepare all such reports, and maintain a general ledger chart of account and any description thereof, in English and U.S. dollars;
- ii. reimburse the Exchange and/or BOXR for any expense incurred in connection with examinations of the Participant to the extent that such expenses exceed the cost of examining a Participant located within the continental United States; and
- iii. ensure the availability of an individual fluent in English and knowledgeable in securities and financial matters to assist representatives of the Exchange during examinations.

(h) Every Participant shall have as the principal purpose of being a Participant the conduct of a public securities business. Such a purpose shall be deemed to exist if and so long as:

- i. the Participant has qualified and acts in respect of its business on BOX as either an OFP or a Market Maker, or both; and

- ii. [all transactions effected by the Participant are in compliance with Section 11\(a\) of the Exchange Act and the rules and regulations adopted thereunder.](#)

### **Sec. 3 Denial of and Conditions to Participation**

(a) The Exchange may deny (or condition) Options Participation or may prevent a person from becoming associated (or condition an association) with an Options Participant for any valid reason under these or other applicable rules and for the same reasons that the SEC may deny or revoke a broker-dealer registration and for those reasons required or allowed under the Exchange Act or Rules thereunder. (See BSE Rules Chapter XX, “Employees for the Solicitation of Business”, Section 4, “Exchange May Disapprove”).

(b) The Exchange also may deny (or condition) participation or may prevent a person from becoming associated with (or condition an association) with a Participant when the applicant, directly or indirectly:

- i. has a negative net worth, has financial difficulties involving an amount that is more than five percent (5%) of the applicant's net worth, or has a pattern of failure to pay just debts (whether or not such debts have been the subject of a bankruptcy action);
- ii. is unable satisfactorily to demonstrate a capacity to adhere to all applicable Exchange, SEC, the Clearing Corporation and Federal Reserve Board policies, rules and regulations, including those concerning record-keeping, reporting, finance and trading procedures; or
- iii. is unable satisfactorily to demonstrate reasonably adequate systems capability and capacity.

(See Constitution Article IX, “Membership”, Section 3, “Qualification for Membership”).

(c) When an applicant is a subject of an investigation conducted by any SRO or government agency implicating his or its fitness for options participation, the Exchange need not act on the application until the matter has been resolved.

(d) The Exchange may determine not to permit an Options Participant or person associated with a Participant to continue as a Participant or associated person, if the Participant or associated person:

- i. fails to meet any of the qualification requirements for participation or association after the Participant or association has been approved;
- ii. fails to meet any condition placed by the Exchange on such participation or association;
- iii. violates any agreement with the Exchange or BOX; or
- iv. becomes subject to a statutory disqualification under the Exchange Act or Rules thereunder.

(See BSE Rules Chapter XXX, "Disciplining of Members – Denial of Membership", generally).

(e) If a Participant or person associated with a Participant that becomes subject to a statutory disqualification under the Exchange Act or Rules thereunder wants to continue as a Participant of BOX or in association with a Participant, the Participant or associated person must, within thirty (30) days of becoming subject to a statutory disqualification, submit an application to the Exchange seeking to continue as a Participant or in association with a Participant notwithstanding the statutory disqualification. Failure to timely file such an application is a factor that may be taken into consideration by the Exchange in making determinations pursuant to paragraph (d) of this Section.

(f) Subject to Chapter IX of these Rules (Summary Suspension), any applicant who has been denied Options Participant status or association with a Participant or granted only conditional participation or association pursuant to this Section, and any Participant or person associated with a Participant who is not permitted pursuant to paragraph (a) or (b) of this Section to continue as a Participant or associated with a Participant or which continuance as a Participant or association is conditioned, may appeal the Board's decision to the Exchange Board of Governors.

#### **Sec. 4 Persons Associated with Options Participants**

(a) Persons associated with Options Participants shall be bound by the Rules of the Exchange and the Rules of the Clearing Corporation. The Exchange may bar a person from becoming or continuing to be associated with an Options Participant if such person does not agree in writing, on a form prescribed by the Exchange, to furnish the Exchange with information with respect to such person's relationship and dealings with the Options Participant, and information reasonably related to such person's other securities business, as may be required by the Exchange, and to permit the examination of

its books and records by the Exchange to verify the accuracy of any information so supplied. (See Constitution Article XIV, "Expulsion and Suspension", Section 6, "Exchange Inquiries").

(b) Each Options Participant shall file with the Exchange and keep current a list and descriptive identification of those persons associated with the Options Participant who are its executive officers, directors, principal shareholders, and general partners. Such persons shall file with the Exchange a Uniform application for Securities Industry Registration or Transfer (Form U-4). (See BSE Rules Chapter XX, "Employees for the Solicitation of Business", Sections 1 and 2, generally).

## **Sec. 5 Good Standing for Options Participants**

- (a) To remain in good standing, all Options Participants must:
- i. continue to satisfy the qualification requirements specified by the Exchange, as amended from time to time by the Exchange;
  - ii. comply with the Rules of the Exchange; and
  - iii. pay on a timely basis such participation, transaction and other fees as the Exchange and/or BOX shall prescribe.

(b) The good standing of an Options Participant may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of the conditions for denial of approval of Section 3 of this Chapter II are met or the Options Participant violates any of its agreements with the Exchange and/or BOX or any of the provisions of the BOX Rules.

(c) Unless an Options Participant is in good standing, the Participant shall have no rights or privileges of options participation except as otherwise provided by law or the Rules, shall not hold himself or itself out for any purpose as a Participant, and shall not deal with the Exchange and/or BOX on any basis except as a non-Participant.

## **Sec. 6 Dissolution and Liquidation of Options Participants**

Every Options Participant shall promptly notify the Exchange in writing upon the adoption of a plan of liquidation or dissolution and complete the appropriate forms, as required by the Exchange. Upon receipt of such notice, the Participant may be suspended

in accordance with Chapter IX (Summary Suspension) of the Rules. (See Constitution Article XIII, “Insolvent Members”, generally).

**Sec. 7 Documents Required of Applicants and Options Participants**

(a) Although the Exchange may request additional information, at a minimum, the partnership agreement and all amendments thereto, in the case of a partnership, the articles of incorporation, by-laws and all amendments thereto, in the case of a corporation, and in the case of a limited liability company, the articles of organization and operating agreement and all amendments thereto, and any lease agreement to which an Options Participant is subject, shall be filed with, and shall be subject to review by, the Exchange; however, no action or failure to act by the Exchange shall be construed to mean that the Exchange has in any way passed on the investment merits of or given approval to any such document.

(b) Every Options Participant shall file with the Exchange and keep current an address where notices may be served.

(c) In a manner and form prescribed by the Exchange, every Options Participant shall pledge to abide by the Constitution and Rules of the Exchange, as amended from time to time, and by all circulars, notices, directives or decisions adopted pursuant to or made in accordance with the Constitution and Rules of the Exchange.

(d) Options Participant shall keep and maintain a current copy of the Constitution and Rules of the Exchange in a readily accessible place. Options Participants that are approved to do business with the public pursuant to Chapter XI of these Rules shall make the Constitution and Rules of the Exchange available for examination by Public Customers.

## **CHAPTER III. BUSINESS CONDUCT**

### **Sec. 1 Adherence to Law**

No Options Participant shall engage in conduct in violation of the Exchange Act or Rules thereunder, the Rules of the Exchange or the Rules of the Clearing Corporation insofar as they relate to the reporting or clearance of any Exchange transaction, or any written interpretation thereof. Every Options Participant shall supervise persons associated with the Participant to assure compliance therewith.

### **Sec. 2 Conduct and Compliance with the Rules**

(a) Each Options Participant shall be responsible for ensuring that all arrangements made and systems used in connection with business conducted on BOX, and the transaction of such business itself, comply with the Options Participant's and associated persons' obligations under the Rules of the Exchange, the Rules of the Clearing Corporation and any other relevant laws, rules, interpretations and obligations. In accordance with the BOX Rules and in connection with business conducted on BOX, each Options Participant shall:

- i. have adequate arrangements to ensure that all staff involved in the conduct of business on BOX are suitable, adequately trained and properly supervised;
- ii. be responsible for the acts and conduct of each associated person,
- iii. establish its trading arrangements such that each Participant is able to meet the requirements set out in Section 1 of this Chapter and that all other relevant obligations contained in the Rules are complied with;
- iv. implement suitable security measures such that only those individuals explicitly authorized by the Options Participant to trade may gain access to passwords and security keys; and
- v. ensure that any trading access granted to individuals (whether employees of the Options Participant or otherwise), for example by way of order routing systems, is adequately controlled and supervised, including appropriate checks before any orders are submitted to the Trading Host.

### **Sec. 3 Rumors**

No Options Participant or person associated with an Options Participant shall circulate, in any manner, rumors of a character which might affect market conditions in any security; provided, however, that this Section shall not prohibit discussion of unsubstantiated information, so long as its source and unverified nature are disclosed. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 27, "Anti-Manipulative Provisions").

### **Sec. 4 Prevention of the Misuse of Material Nonpublic Information**

(a) Every Options Participant shall establish, maintain and enforce written policies and procedures reasonably designed, taking into consideration the nature of the Participant's business, to prevent the misuse of material nonpublic information by such Participant or persons associated with such Participant in violation of the federal securities laws or the Rules thereunder, and the Rules of the Exchange. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 37, "ITSFEA Procedures").

(b) Misuse of material nonpublic information includes, but is not limited to:

- i. trading in any securities issued by a corporation, or in any related securities or related options or other derivative securities, while in possession of material nonpublic information concerning that corporation;
- ii. trading in an underlying security or related options or other derivative securities, while in possession of material nonpublic information concerning imminent transactions in the underlying security or related securities; and
- iii. disclosing to another person any material nonpublic information involving a corporation whose shares are publicly traded or disclosing an imminent transaction in an underlying security or related securities for the purpose of facilitating the possible misuse of such material nonpublic information.

(c) Each Options Participant shall establish, maintain and enforce the following policies and procedures as appropriate for the nature of each Participant's business:

- i. All associated persons must be advised in writing of the prohibition against the misuse of material nonpublic information.
- ii. Signed attestations from the Participant and all associated persons affirming their awareness of, and agreement to abide by, the aforementioned prohibitions must be maintained for at least three (3) years, the first two (2) years in an easily accessible place.
- iii. Records of all brokerage accounts maintained by the Participant and all associated persons must be acquired and maintained for at least three (3) years, the first two (2) years in an easily accessible place, and such brokerage accounts must be reviewed periodically by the Participant for the purpose of detecting the possible misuse of material nonpublic information.
- iv. Any business dealings the Participant may have with any corporation whose securities are publicly traded, or any other circumstances that may result in the Participant receiving, in the ordinary course of business, material nonpublic information concerning any such corporation, must be identified and documented.

(d) Participants that are required, pursuant to [BSE Rules](#) [ of the Exchange], Chapter [XXII \(Audits\)](#) [XII \(Financial Reports and Requirements – Net Capital\)](#), to file Form X-17A-5 under the Exchange Act or Rules thereunder, with the Exchange on an annual basis only, shall, contemporaneously with those submissions, file attestations signed by such Participants stating that the procedures mandated by this Section have been established, enforced and maintained.

(e) Any Options Participant or associated person who becomes aware of any possible misuse of material nonpublic information must promptly notify BOXR.

## **Sec. 5 Disciplinary Action by Other Organizations**

Every Options Participant shall promptly notify BOXR in writing of any disciplinary action, including the basis therefore, taken by any national securities exchange or registered securities association, clearing corporation, commodity futures market or government regulatory body against the Options Participant or its associated persons who are directly involved in derivatives trading, and shall similarly notify BOXR of any disciplinary action taken by the Options Participant itself against any of its associated persons who are directly involved in derivatives trading involving suspension,

termination, the withholding of commissions or imposition of fines in excess of \$5,000, or any other significant limitation on activities.

## **Sec. 6 Other Restrictions on Participants**

Whenever the Exchange shall find that an Options Participant has failed to perform on its contracts or is insolvent or is in such financial or operational condition or is otherwise conducting business in such a manner that it cannot safely conduct business with Customers, creditors or the Exchange, the Exchange may summarily suspend the Options Participant in accordance with Chapter IX (Summary Suspension) or may impose such conditions and restrictions upon the Options Participant as the Exchange considers reasonably necessary for the protection of the Exchange, BOX, and the Customers of such Options Participant. (See Constitution Article XIV, “Expulsion and Suspension”, generally).

## **Sec. 7 Position Limits**

(a) Except with the prior permission of an Options Official or his designee, to be confirmed in writing, no Options Participant shall make, for any account in which it has an interest or for the account of any Customer, an opening transaction on any exchange if the Options Participant has reason to believe that as a result of such transaction the Options Participant or its Customer would, acting alone or in concert with others, directly or indirectly:

- i. control (as defined in paragraph (e) below) an aggregate position in an options contract traded on BOX in excess of 13,500 or 22,500 or 31,500 or 60,000 or 75,000 options contracts (whether long or short) of the put type and the call type on the same side of the market respecting the same underlying security, combining for purposes of this position limit long positions in put options with short positions in call options, and short positions in put options with long positions in call options, or such other number of options contracts as may be fixed from time to time by BOX as the position limit for one or more classes or series of options; or
- ii. exceed the applicable position limit fixed from time to time by another exchange for an options contract not traded on BOX, when the Options Participant is not a member of the other exchange on which the transaction was effected.

(b) Should an Options Participant have reason to believe that a position in any account in which it has an interest or for the account of any Customer of such Options Participant is in excess of the applicable limit, such Options Participant shall promptly take the action necessary to bring the position into compliance.

(c) Reasonable notice shall be given of each new position limit fixed by the Exchange.

Limits shall be determined in the following manner:

- i. A 13,500-contract limit applies to those options having an underlying security that does not meet the requirements for a higher options contract limit.
- ii. To be eligible for the 22,500-contract limit, either the most recent six (6) month trading volume of the underlying security must have totaled at least twenty (20) million shares, or the most recent six (6) month trading volume of the underlying security must have totaled at least fifteen (15) million shares and the underlying security must have at least forty (40) million shares currently outstanding.
- iii. To be eligible for the 31,500-contract limit, either the most recent six (6) month trading volume of the underlying security must have totaled at least forty (40) million shares or the most recent six (6) month trading volume of the underlying security must have totaled at least thirty (30) million shares and the underlying security must have at least 120 million shares currently outstanding.
- iv. To be eligible for the 60,000-contract limit, either the most recent six (6) month trading volume of the underlying security must have totaled at least eighty (80) million shares or the most recent six (6) month trading volume of the underlying security must have totaled at least sixty (60) million shares and the underlying security must have at least 240 million shares currently outstanding.
- v. To be eligible for the 75,000-contract limit, either the most recent six (6) month trading volume of the underlying security must have totaled at least 100 million shares or the most recent six-month trading volume of the underlying security must have totaled at least seventy-five (75) million shares and the underlying security must have at least 300 million shares currently outstanding.

(d) Every six (6) months, BOXR will review the status of underlying securities to determine which position limit should apply. A higher limit will be effective on the date set by BOXR, while any change to a lower limit will take effect after the last expiration then trading, unless the requirement for the same or a higher limit is met at the time of the intervening six (6) month review. If, however, subsequent to a six (6) month review, an increase in volume and/or outstanding shares would make a stock eligible for a higher position limit prior to the next review, BOXR in its discretion may immediately increase such position limit.

(e) Control exists under this Section 7 when it is determined by BOXR that an individual or entity makes investment decisions for an account or accounts, or materially influences directly or indirectly the actions of any person who makes investment decisions.

- i. Control will be presumed in the following circumstances, and will be presumed to continue until determined otherwise pursuant to paragraph (e)(ii) below:
  - 1) among all parties to a joint account who have authority to act on behalf of the account;
  - 2) among all general partners to a partnership account;
  - 3) when an individual or entity holds an ownership interest of ten percent (10%) or more in an entity (ownership interest of less than ten percent (10%) will not preclude aggregation), or shares in ten percent (10%) or more of profits and losses of an account;
  - 4) when accounts have common directors or management;
  - 5) where a person has the authority to execute transactions in an account.
- ii. Control, presumed by one or more of the above findings or circumstances, can be rebutted by proving to BOXR that the factor does not exist or by showing other factors which negate the presumption of control. The rebuttal proof must be submitted by affidavit and/or such other documentary evidence as may be appropriate in the circumstances. BOXR also will consider the following factors in determining if aggregation of accounts is required:
  - 1) similar patterns of trading activity among separate entities;

- 2) the sharing of kindred business purposes and interests;
  - 3) whether there is common supervision of the entities which extends beyond assuring adherence to each entity's investment objectives and/ or restrictions.
- iii. Initial determinations under this paragraph (e) shall be made by the staff of the Market Regulation Center. The initial determination may be reviewed by an Options Official or his designee, based upon a report by the MRC. An Options Participant or Customer directly affected by such a determination may ask an Options Official or his designee to reconsider, but may not request any other review or appeal except in the context of a disciplinary proceeding. The decision to grant non-aggregation under this paragraph (e) shall not be retroactive.

(See BSE Rules Chapter I, "Definitions", Section 2, "Member, etc.")

#### **Supplementary Material to Section 7**

.01 The position limits contained in this Section 7 shall be 300,000 for options contracts overlying the Nasdaq 100 Index Trading Stock®.

.02 Whenever the Exchange determines that a higher margin requirement is warranted in light of the risks associated with an under-hedged options position, the Exchange may impose additional margin upon the account maintaining such underhedged position, pursuant to its authority under Chapter VII of the Rules of the Exchange (Carrying of Accounts- Customers' Securities- Give-up Orders). The Clearing Participant carrying the account will be subject to capital charges under SEC Rule 15c3-1 to the extent of any margin deficiency resulting from the higher margin requirements.

#### **Sec. 8 Exemptions from Position Limits**

(a) *Equity Hedge Exemption.* The following qualified hedging transactions and positions described in paragraphs (i) through (v) below shall be exempt from established position and exercise limits as prescribed under Section 7(c) of this Chapter III (Position Limits) above. Hedge transactions and positions established pursuant to paragraphs (vi) and (vii) below are subject to a position limit equal to five (5) times the standard limit established under Section 7(c) of this Chapter III (Position Limits) above:

- i. Where each option contract is “hedged” or “covered” by 100 shares of the underlying security or securities convertible into such underlying security, or, in the case of an adjusted option contract, the same number of shares represented by the adjusted contract: (1) long call and short stock; (2) short call and long stock; (3) long put and long stock; (4) short put and short stock.
- ii. A long call position accompanied by a short put position, where the long call expires with the short put, and the strike price of the long call and short put is equal, and where each long call and short put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“reverse conversion”).
- iii. A short call position accompanied by a long put position where the short call expires with the long put, and the strike prices of the short call and long put are equal, and where each short call and long put position is hedged with 100 shares (or other adjusted number of shares) of the underlying security or securities convertible into such stock (“conversion”).
- iv. A short call position accompanied by a long put position where the short call expires with the long put, and the strike price of the short call equals or exceeds the strike price of the long put, and where each short call and long put position is hedged with 100 shares of the underlying security (or other adjusted number of shares). Neither side of the short call, long put position can be in-the-money at the time the position is established (“collar”).
- v. A long call position accompanied by a short put position with the same strike prices and a short call position accompanied by a long put position with a different strike prices (“box spread”).
- vi. A listed option position hedged on a one-for-one basis with an over-the-counter (“OTC”) option position on the same underlying security. The strike price of the listed option position and corresponding OTC option position must be within one strike of each other and no more than one expiration month apart.
- vii. For those strategies described under (ii), (iii), and (iv) above, one component of the option strategy can be an OTC option contract guaranteed or endorsed by the firm maintaining the proprietary position or carrying the Customer account.

- viii. An OTC option contract is defined as an option contract that is not listed on a national securities exchange or cleared at the Options Clearing Corporation.

(b) The equity hedge exemption is in addition to the standard limit and other exemptions available under BOX Rules.

(c) *Market Maker Exemption.* The provisions set forth below apply only to Market Makers seeking an exemption to the standard position limits in all options traded on BOX for the purpose of assuring that there is sufficient depth and liquidity in the marketplace, and not for the purpose of conferring a right upon the Market Maker applying for an exemption.

- i. In light of the procedural safeguards, the purpose of this exemption process, and the prohibition against the granting of retroactive exemptions, decisions granting or denying exemptions are not subject to review under Chapter XXX of the Rules of the Exchange regarding Hearings and Review.
- ii. An exemption may be granted for the purpose of maintaining a fair and orderly market in the options on a given underlying security.
- iii. Generally, an exemption will be granted only to a Market Maker who has requested an exemption, who is appointed to the options class in which the exemption is requested pursuant to Chapter VI Section 4 of these Rules (Appointment of Market Makers), whose positions are near the current position limit and who is significant in terms of daily volume. The positions must generally be within ten percent (10%) of the limits contained in Section 7 of this Chapter III (Position Limits).
- iv. If an exemption is granted, it will be effective at the time the decision is communicated, and retroactive exemptions will not be granted.
- v. The size and length of an exemption will be determined on a case by case basis; however, an exemption usually will be granted until the nearest expiration. The exemption may specify the extent to which the resulting position may be carried in options in one or more expiration cycles.
- vi. Procedures for Market Makers nearing the limits due to general market conditions:

- 1) A request for an exemption from the established position and exercise limits must be in writing and must state the specific reasons why an exemption should be granted.
- 2) The request should be submitted to BOXR no later than 1:00 p.m. for same-day review.
- 3) Review of the request will be conducted informally, *i.e.*, BOXR may receive information in such manner as is most effective, in its discretion, to ascertain whether an exemption is necessary to maintain depth and liquidity in the market.
- 4) BOXR will communicate the exemption decision to the requesting Market Maker and his or its Clearing Participant as soon as possible, generally on the day following review.
- 5) Requests for instant exemptions may be made for extraordinary situations, such as when there is an order imbalance or a Market Maker is near the limits intraday. Following immediate review of the situation, BOXR will decide whether an exemption is warranted.

(d) *Firm Facilitation Exemption.* To the extent that the following procedures and criteria are satisfied, an Options Participant may receive and maintain for its proprietary account an exemption ("facilitation exemption") from the applicable standard position limit in non-multiply-listed options traded on BOX for the purpose of facilitating (i) orders for its own Public Customer (one that will have the resulting position carried with the firm) or (ii) orders received from or on behalf of a Public Customer for execution only against the Participant firm's proprietary account.

- i. The Options Participant must receive approval from BOXR prior to executing facilitating trades.
- ii. The facilitation exemption shall be granted to the Options Participant owning or controlling the account in which the exempt options positions are held. For purposes of this paragraph (d), control shall be determined in accordance with the provision of Section 7 of this Chapter III (Position Limits).
- iii. BOXR approval may be given on the basis of verbal representations; however, the Options Participant must, within a period of time to be designated by BOXR, furnish the appropriate forms and documentation substantiating the basis for the

exemption. The approval of the facilitation exemption will specify the maximum number of contracts that may be exempt under this paragraph (d). In no event may the aggregate exempted position under this paragraph (d) exceed twice the applicable standard limit.

- iv. The facilitation exemption is in addition to the standard limit and other exemptions available under BOX Rules. An Options Participant so approved is hereinafter referred to as a "facilitation firm."
- v. The facilitation firm must provide all information required by BOX on approved forms and keep such information current. The facilitation firm shall promptly provide to BOX any information or documents requested concerning the exempted options positions and the positions hedging them.
- vi. Regarding the execution of its Public Customer Order and its own facilitating order, a facilitation firm shall make neither order contingent on "fill or kill" instructions.
- vii. To remain qualified, a facilitation firm must, within five (5) business days after the execution of a facilitation exemption order, hedge all exempt options positions that have not previously been liquidated, and furnish BOX with documentation reflecting the resulting hedging positions.
- viii. The facilitation firm shall:
  - 1) liquidate and establish its Public Customer's and its own options and stock positions or their equivalent in an orderly fashion, and not in a manner calculated to cause unreasonable price fluctuations or unwarranted price changes; and not initiate or liquidate its Public Customer's or its own stock position or its equivalent with an equivalent index options position with a view toward taking advantage of any differential in price between a group of securities and an overlying stock index option;
  - 2) promptly notify BOX of any material change in the exempted options position or the hedge; and
  - 3) not increase the exempted options position once it is closed unless approval is received again pursuant to a reapplication under this paragraph (d).

- ix. Violation of any of these provisions, absent reasonable justification or excuse, shall result in withdrawal of the facilitation exemption and may form the basis for subsequent denial of an application for a facilitation exemption hereunder.

## **Sec. 9 Exercise Limits**

(a) Except with the prior permission of an Options Official or his designee, to be confirmed in writing, no Options Participant shall exercise, for any account in which it has an interest or for the account of any Customer, a long position in any options contract where such Options Participant or Customer, acting alone or in concert with others, directly or indirectly, has or will have:

- i. exercised within any five (5) consecutive business days aggregate long positions in any class of options traded on BOX in excess of 13,500 or 22,500 or 31,500 or 60,000 or 75,000 options contracts or such other number of options contract as may be fixed from time to time by BOX as the exercise limit for that class of options; or
- ii. exceeded the applicable exercise limit fixed from time to time by another exchange for an options class not traded on BOX, when the Participant is not a member of the other exchange which lists the options class.

(b) Reasonable notice shall be given of each new exercise limit fixed by BOXR by posting notice thereof by BOXR.

(c) Limits shall be determined in the manner described in Section 7 (Position Limits). For a Market Maker that has been granted an exemption to position limits pursuant to Section 8 of this Chapter III (Exemption to Position Limits), the number of contracts which can be exercised over a five (5) business day period shall equal the Market Maker's exempted position.

### **Supplementary Material to Section 9**

.01 The exercise limits for options overlying the Nasdaq 100 Index Tracking Stock® shall be 300,000 contracts.

## **Sec. 10 Reports Related to Position Limits**

(a) Each Options Participant shall file with the Exchange the name, address and social security or tax identification number of any Customer, as well as any Options Participant, any general or special partner of the Options Participant, any officer or director of the Options Participant or any participant, as such, in any joint, group or syndicate account with the Options Participant or with any partner, officer or director thereof, who, on the previous business day held aggregate long or short positions of 200 or more options contracts of any single class of options traded on BOX. The report shall indicate for each such class of options contracts the number of options contracts comprising each such position and, in case of short positions, whether covered or uncovered.

(b) Options Participants that maintain an end of day position in excess of 10,000 non-FLEX equity options contracts on the same side of the market on behalf of its own account or for the account of a Customer, shall report whether such position is hedged and provide documentation as to how such position is hedged. This report is required at the time the subject account exceeds the 10,000 contract threshold and thereafter, for Customer accounts, when the position increases by 2,500 contracts and for proprietary accounts when the position increases by 5,000 contracts.

(c) In addition to the reports required by paragraph (a) and (b) of this Section, each Options Participant shall report promptly to BOX any instance in which the Options Participant has reason to believe that a person included in paragraph (a), acting alone or in concert with others, has exceeded or is attempting to exceed the position limits established pursuant to Section 7 of this Chapter III (Position Limits).

## **Sec. 11 Liquidation Positions**

(a) Whenever BOX shall find that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position (whether long or short) in all options contracts or one or more classes or series traded on BOX in excess of the applicable position limit established pursuant to Section 7 of this Chapter III (Position Limits), it may order all Options Participants carrying a position in options contracts of such classes or series for such person or persons to liquidate such positions as expeditiously as possible, consistent with the maintenance of a fair and orderly market.

(b) Whenever such an order is given, no Options Participant shall accept any order to purchase, sell or exercise any options contract for the account of the person or persons named in the order, unless and until BOX expressly approves such person or persons for options transactions.

## **Sec. 12 Other Restrictions on Options Transactions and Exercises**

(a) BOXR may impose such restrictions on transactions or exercises in one or more series of options of any class traded on BOX as BOXR in its judgment deems advisable in the interests of maintaining a fair and orderly market in options contracts or in underlying securities, or otherwise deems advisable in the public interest or for the protection of investors.

- i. During the effectiveness of such restrictions, no Options Participant shall, for any account in which it has an interest or for the account of any Customer, engage in any transaction or exercise in contravention of such restrictions.
- ii. Notwithstanding the foregoing, during the ten (10) business days prior to the expiration date of a given series of options, no restriction on exercise under this Section may be in effect with respect to that series of options.

(b) Whenever the issuer of a security underlying a call option traded on BOX is engaged or proposes to engage in a public underwritten distribution (“public distribution”) of such underlying security or securities exchangeable for or convertible into such underlying security, the underwriters may request that BOXR impose restrictions upon all opening writing transactions in such options at a “discount” where the resulting short position will be uncovered (“uncovered opening writing transactions”).

- i. In addition to a request, the following conditions are necessary for the imposition of restrictions:
  - 1) less than a majority of the securities to be publicly distributed in such distribution are being sold by existing security holders;
  - 2) the underwriters agree to notify BOXR upon the termination of their stabilization activities; and
  - 3) the underwriters initiate stabilization activities in such underlying security on a national securities exchange when the price of such security is either at a “minus” or “zero minus” tick.
- ii. Upon receipt of such a request and determination that the conditions listed above are met, BOXR shall impose the requested

restrictions as promptly as possible but no earlier than fifteen (15) minutes after Participants shall have been notified and shall terminate such restrictions upon request of the underwriters or when BOXR otherwise discovers that stabilizing transactions by the underwriters has been terminated.

- iii. For purposes of paragraph (b) of this Section 12, an uncovered opening writing transaction in a call option will be deemed to be effected at a “discount” when the premium in such transaction is either:
  - 1) in the case of a distribution of the underlying security not involving the issuance of rights and in the case of a distribution of securities exchangeable for or convertible into the underlying security, less than the amount by which the underwriters' stabilization bid for the underlying security exceeds the exercise price of such option; or
  - 2) in the case of a distribution being offered pursuant to rights, less than the amount by which the underwriters' stabilization bid in the underlying security at the subscription price exceeds the exercise price of such option.

### **Sec. 13 Mandatory Systems Testing**

(a) Each Options Participant that BOXR designates as required to participate in a system test must conduct or participate in the testing of its computer systems to ascertain the compatibility of such systems with the Exchange's systems in the manner and frequency prescribed by the Exchange. BOXR will designate Options Participants as required to participate in a system test based on: (1) the category of the Participant (Market Maker and OFP); (2) the computer system(s) the Participant uses; and (3) the manner in which the Participant connects to the Exchange. BOXR will give Participants reasonable notice of any mandatory systems test, which notice will specify the nature of the test and Participants' obligations in participating in the test.

(b) Every Options Participant required by BOXR to conduct or participate in testing of computer systems shall provide to the Exchange such reports relating to the testing as the Exchange may prescribe. Participants shall maintain adequate documentation of tests required by this Section 13 and results of such testing for examination by the Exchange.

(c) An Options Participant that is subject to this Section 13 and that fails to conduct or participate in the tests, fails to file the required reports, or fails to maintain the required documentation, may be subject to a summary suspension or other action taken pursuant to Chapter IX of these Rules and/or a disciplinary action pursuant to the Chapter XXX of the Rules of the Exchange (Disciplining of Members– Denial of Membership).

#### **Sec. 14 Limit on Outstanding Uncovered Short Positions**

(a) Whenever it is determined from the reports of uncovered short positions submitted pursuant to Section 2 of Chapter VIII of these Rules (Reports of Uncovered Short Positions), viewed in light of current market conditions in options and in underlying securities, that there are outstanding an excessive number of uncovered short positions in options contracts of a given class traded on BOX or that an excessively high percentage of outstanding short positions in options contracts of a given class traded on BOX are uncovered, the Options Official may determine to prohibit Options Participants from any further opening writing transactions on any exchange in options contracts of that class unless the resulting short position will be covered, and the Options Official may prohibit the uncovering of any existing covered short positions in one or more series of options of that class, as it deems appropriate in the interest of maintaining a fair and orderly market in options contracts or in underlying securities.

(b) The Options Official may exempt transactions of Market Makers from restrictions imposed under this Rule. Such restrictions shall be rescinded upon a determination that they are no longer appropriate.

## **CHAPTER IV. SECURITIES TRADED ON THE BOSTON OPTIONS EXCHANGE FACILITY**

### **Sec. 1 Designation of Securities**

Securities traded on BOX are options contracts, each of which is designated by reference to the issuer of the underlying security, expiration month, exercise price and type (put or call).

### **Sec. 2 Rights and Obligations of Holders and Writers**

The rights and obligations of holders and writers are set forth in the Rules of the Clearing Corporation.

### **Sec. 3 Criteria for Underlying Securities**

(a) Underlying securities with respect to which put or call options contracts are approved for listing and trading on BOX must meet the following criteria:

- i. The security must be registered with the SEC and
  - 1) listed on a national securities exchange; or
  - 2) traded through the facilities of a national securities association and reported as a “national market system” (“NMS”) security as set forth in Rule 11Aa3-1 under the Exchange Act; and
- ii. the security shall be characterized by a substantial number of outstanding shares that are widely held and actively traded.

(b) In addition, BOXR shall from time to time establish standards to be considered in evaluating potential underlying securities for BOX options transactions. There are many relevant factors which must be considered in arriving at such a determination, and the fact that a particular security may meet the standards established by BOXR does not necessarily mean that it will be selected as an underlying security. BOXR may give consideration to maintaining diversity among various industries and issuers in selecting underlying securities. Notwithstanding the foregoing, an underlying security will not be selected unless:

- i. There are a minimum of seven (7) million shares of the underlying security which are owned by persons other than those required to report their stock holdings under Section 16(a) of the Exchange Act.
- ii. There are a minimum of 2,000 holders of the underlying security.
- iii. The issuer is in compliance with any applicable requirements of the Exchange Act or Rules thereunder.
- iv. Trading volume (in all markets in which the underlying security is traded) has been at least 2,400,000 shares in the preceding twelve (12) months.
- v. Either:
  - 1) If the underlying security is a “covered security” as defined under Section 18(b)(1)(A) of the Securities Act of 1933, the market price per share of the underlying security has been at least \$3.00 for the previous five consecutive business days preceding the date on which the Exchange submits a certificate to the Clearing Corporation for listing and trading, as measured by the closing price reported in the primary market in which the underlying security is traded; or
  - [1) ~~The~~2) If the underlying security is not a “covered security,” the market price per share of the underlying security has been at least \$7.50 for the majority of business days during the three (3) calendar months preceding the date of selection, as measured by the lowest closing price reported in any market in which the underlying security traded on each of the subject days[.]; [~~Or~~]or
  - [2]3) The underlying security meets the standards for continued approval in Section 4; options on such underlying security are traded on at least one other registered national securities exchange; and the average daily trading volume for such options over the last three calendar months preceding the date of selection has been at least 5,000 contracts.

(c) *Securities of Restructured Companies*

i. *Definitions.* The following definitions shall apply to the provisions of this paragraph (c):

- 1) “Restructuring Transaction” refers to a spin-off, reorganization, recapitalization, restructuring or similar corporate transaction.
- 2) “Restructure Security” refers to an equity security that a company issues, or anticipates issuing, as the result of a Restructuring Transaction of the company.
- 3) “Original Equity Security” refers to a company's equity security that is issued and outstanding prior to the effective date of a Restructuring Transaction of the company.
- 4) “Relevant Percentage” refers to either: (i) twenty-five percent (25%), when the applicable measure determined with respect to the Original Equity Security or the business it represents includes the business represented by the Restructure Security; or (ii) thirty-three and one-third percent (33-1/3%), when the applicable measure determined with respect to the Original Equity Security or the business it represents excludes the business represented by the Restructure Security.

ii. *“Share” and “Number of Shareholder” Standards.* In determining whether a Restructure Security satisfies the share standard set forth in this Section 3(b)(i) (the “Share Standard”) or the number of holders standard set forth in this Section 3(b)(ii) (the “Number of Shareholders Standard”), BOXR may rely upon the facts and circumstances that it expects to exist on the option's intended listing date, rather than on the date on which BOXR selects for options trading the underlying Restructure Security.

- 1) BOXR may assume that: (i) both the “Share” and “Number of Shareholders” Standards are satisfied if, on the option's intended listing date, BOXR expects no fewer than forty (40) million shares of the Restructure Security to be issued and outstanding; and (ii) either such Standard is satisfied if, on the option's intended listing day, BOXR expects the Restructure Security to be listed on an exchange or automatic quotation system that has, and is subject to, an

initial listing requirement that is no less stringent than the Standard in question.

- 2) BOXR may not rely on any such assumption, however, if a reasonable BOXR investigation or that of another exchange demonstrates that either the Share Standard or Number of Shareholders Standard will not in fact be satisfied on an option's intended listing date.
  - 3) In addition, in the case of a Restructuring Transaction in which the shares of a Restructure Security are issued or distributed to the holders of shares of an Original Equity Security, BOXR may determine that either the Share Standard or the Number of Shareholders Standard is satisfied based upon BOXR's knowledge of the outstanding shares or number of shareholders of the Original Equity Security.
- iii. *"Trading Volume"* Standard. In determining whether a Restructure Security that is issued or distributed to the holders of shares of an Original Equity Security (but not a Restructure Security that is issued pursuant to a public offering or rights distribution) satisfies the trading volume standard set forth in Section 3(b)(4) (the *"Trading Volume Standard"*), BOXR may consider the trading volume history of the Original Equity Security prior to the *"ex-date"* of the Restructuring Transaction if the Restructure Security satisfies the *"Substantiality Test"* set forth in subparagraph (v) below.
- iv. *"Market Price"* Standard. In determining whether a Restructure Security satisfies the market price history standard set forth in Section 3(b)(v) (the *"Market Price Standard"*), BOXR may consider the market price history of the Original Equity Security prior to the *"ex-date"* of the Restructuring Transaction if:
- 1) the Restructure Security satisfies the *"Substantiality Test"* set forth in subparagraph (v) below; and
  - 2) in the case of the application of the Market Price Standard to a Restructure Security that is distributed pursuant to a public offering or a rights distribution: (i) the Restructure Security trades *"regular way"* on an exchange or automatic quotation system for at least the five trading days immediately preceding the date of selection; and (ii) at the

close of trading on each trading day on which the Restructure Security trades “regular way” prior to the date of selection, and the opening of trading on the date of selection, the market price of the Restructure Security was at least \$[7.50.]7.50, or, if the Restructure Security is a “covered security,” as defined in Section 3(b)(v)(1), the market price of the Restructure Security was at least \$3.00.

- v. The “*Substantiality Test.*” A Restructure Security satisfies the “Substantiality Test” if:
- 1) the Restructure Security has an aggregate market value of at least \$500 million; or
  - 2) at least one of the following conditions is met:
    - a. [(a) ]the aggregate market value of the Restructure Security equals or exceeds the Relevant Percentage of the aggregate market value of the Original Equity Security;
    - b. [(b) ]the aggregate book value of the assets attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the aggregate book value of the assets attributed to the business represented by the Original Equity Security; or
    - c. [(c) ]the revenues attributed to the business represented by the Restructure Security equals or exceeds both \$50 million and the Relevant Percentage of the revenues attributed to the business represented by the Original Equity Security.
- vi. A Restructure Security's aggregate market value may be determined from “when issued” prices, if available.
- vii. In calculating comparative aggregate market values for the purpose of assessing whether a Restructure Security qualifies to underlie an option, BOXR shall use the Restructure Security's closing price on its primary market on the last business day prior to the selection date or the Restructure Security's opening price on its primary

market on the selection date and shall use the corresponding closing or opening price of the related Original Equity Security.

- viii. In calculating comparative asset values and revenues, BOXR shall use either: (a) the issuer's latest annual financial statements or (b) the issuer's most recently available interim financial statements (so long as such interim financial statements cover a period of not less than three months), whichever are more recent. Those financial statements may be audited or unaudited and may be pro forma.
- ix. Except in the case of a Restructure Security that is distributed pursuant to a public offering or rights distribution, BOXR may not rely upon the trading volume or market price history of an Original Equity Security as Paragraph (c) of this Section 3 permits for any trading day unless it relies upon both of those measures for that trading day.
- x. Once BOXR commences to rely upon a Restructure Security's trading volume and market price history for any trading day, BOXR may not rely upon the trading volume and market price history of the security's related Original Equity Security for any trading day thereafter.
- xi. "*When Issued*" Trading Prohibited. BOXR shall not list for trading options contracts that overlie a Restructure Security that is not yet issued and outstanding, regardless of whether the Restructure Security is trading on a "when issued" basis or on another basis that is contingent upon the issuance or distribution of shares.

(d) In considering underlying securities, BOXR shall ordinarily rely upon information made publicly available by the issuer and/or the markets in which the security is traded.

(e) The word "security" shall be broadly interpreted to mean any equity security, as defined in Rule 3a11-1 under the Exchange Act, which is appropriate for options trading, and the word "shares" shall mean the unit of trading of such security.

(f) Securities deemed appropriate for options trading shall include nonconvertible preferred stock issues and American Depositary Receipts ("ADRs") if they meet the criteria and standards set forth in this Section 3 and if, in the case of ADRs:

- i. BOXR has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded;

- ii. the combined trading volume of the ADR and other related ADRs and securities (as defined below) occurring in the U.S. ADR market or in markets with which the Exchange has in place an effective surveillance sharing agreement represents (on a share equivalent basis) at least fifty percent (50%) of the combined worldwide trading volume in the ADR, the security underlying the ADR, other classes of common stock related to the underlying security, and ADRs overlying such other stock (together “other related ADRs and securities”) over the three month period preceding the date of selection of the ADR for options trading;
- iii.
  - 1) the combined trading volume of the ADR and other related ADRs and securities occurring in the U.S. ADR market and in markets where BOXR has in place an effective surveillance sharing agreement, represents (on a share equivalent basis) at least twenty percent (20%) of the combined worldwide trading volume in the ADR and in other related ADRs and securities over the three month period preceding the date of selection of the ADR for options trading,
  - 2) the average daily trading volume for the security in the U.S. markets over the three (3) months preceding the selection of the ADR for options trading is 100,000 or more shares, and
  - 3) the trading volume is at least 60,000 shares per day in U.S. markets on a majority of the trading days for the three (3) months preceding the date of selection of the ADR for options trading (“Daily Trading Volume Standard”); or
- iv. the SEC otherwise authorizes the listing.

(g) Securities deemed appropriate for options trading shall include shares issued by registered closed-end management investment companies that invest in the securities of issuers based in one or more foreign countries (“International Funds”) if they meet the criteria and standards set forth in this Section 3 and either:

- i. BOXR has a market information sharing agreement with the primary home exchange for each of the securities held by the fund, or

- ii. the International Fund is classified as a diversified fund as that term is defined by Section 5(b) of the Investment Company Act of 1940, as amended, and the securities held by the fund are issued by issuers based in five (5) or more countries.

(h) A “market information sharing agreement” for purposes of this Section is an agreement that would permit BOXR to obtain trading information relating to the securities held by the fund including the identity of the Participant of the foreign exchange executing a trade. International Fund shares not meeting the criteria of paragraph (i) shall be deemed appropriate for options trading if the SEC specifically authorizes the listing thereof.

(i) Securities deemed appropriate for options trading shall include shares or other securities (“Fund Shares”) that represent interests in registered investment companies (or series thereof) organized as open-end management investment companies, unit investment trusts or similar entities that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as “national market” securities, and that hold portfolios of securities comprising or otherwise based on or representing investments in broad-based indexes or portfolios of securities (or that hold securities in one or more other registered investment companies that themselves hold such portfolios of securities) (“Funds”); provided that all of the following conditions are met:

- i. any non-U.S. component stocks of the index or portfolio on which the Fund Shares are based that are not subject to comprehensive surveillance agreements do not in the aggregate represent more than 50% of the weight of the index or portfolio;
- ii. Stocks for which the primary market is in any one country that is not subject to a comprehensive surveillance agreement do not represent 20% or more of the weight of the index;
- iii. stocks for which the primary market is in any two countries that are not subject to comprehensive surveillance agreements do not represent 33% or more of the weight of the index; and
- iv. the Fund Shares either (1) meet the criteria and standards set forth in paragraphs ([a]i) and ([b]ii) above; or (2) the Fund Shares are available for creation or redemption each business day from or through the Fund in cash or in kind at a price related to net asset value, and the Fund is obligated to issue Fund Shares in a specified aggregate number even if some or all of the securities required to be deposited have not been received by the Fund, subject to the condition that the person obligated to deposit the securities has

undertaken to deliver the securities as soon as possible and such undertaking is secured by the delivery and maintenance of collateral consisting of cash or cash equivalents satisfactory to the Fund, all as described in the Fund's prospectus.

[\[\(See BSE Rules Chapter XXIV-B, "Index Fund Shares", generally\).\]](#)

(j) Securities deemed appropriate for options trading shall include shares or other securities ("Trust Issued Receipts") that are principally traded on a national securities exchange or through the facilities of a national securities association and reported as a national market security, and that represent ownership of the specific deposited securities held by a trust, provided:

- i. the Trust Issued Receipts (1) meet the criteria and standards for underlying securities set forth in paragraph (b) to this Rule; or (2) must be available for issuance or cancellation each business day from the Trust in exchange for the underlying deposited securities; and
- ii. not more than 20% of the weight of the Trust Issued Receipt is represented by ADRs on securities for which the primary market is not subject to a comprehensive surveillance agreement.

[\[\(See BSE Rules Chapter XXIV – A, "Trust Issued Receipts", generally\).\]](#)

#### **Sec. 4 Withdrawal of Approval of Underlying Securities**

(a) Whenever BOXR determines that an underlying security previously approved for BOX Transactions does not meet the then current requirements for continuance of such approval or for any other reason should no longer be approved, BOXR will not open for trading any additional series of options of the class covering that underlying security and shall prohibit any opening purchase transactions in series of options of that class previously opened to the extent it deems such action necessary or appropriate. When all options contracts with respect to any underlying security that is no longer approved have expired, BOXR will make application to the SEC to strike from trading and listing all such options contracts.

(b) An underlying security will not be deemed to meet BOXR's requirements for continued approval whenever any of the following occur:

- i. There are fewer than 6,300,000 shares of the underlying security held by persons other than those who are required to report their security holdings under Section 16(a) of the Exchange Act.
- ii. There are fewer than 1,600 holders of the underlying security.
- iii. The trading volume (in all markets in which the underlying security is traded) has been less than 1,800,000 shares in the preceding twelve (12) months.
- iv. The market price per share of the underlying security closed below \$3 on the previous trading day as measured by the closing price reported by the primary market in which the underlying security is traded.
- v. The issuer has failed to make timely reports as required by applicable requirements of the Exchange Act or Rules thereunder, and such failure has not been corrected within thirty (30) days after the date the report was due to be filed.
- vi. The issue, in the case of an underlying security that is principally traded on a national securities exchange, is delisted from trading on that exchange and neither meets NMS criteria nor is traded through the facilities of a national securities association, or the issue, in the case of an underlying security that is principally traded through the facilities of a national securities association, is no longer designated as an NMS security.
- vii. If an underlying security is approved for options listing and trading under the provisions of Section 3 of this Chapter IV (Criteria for Underlying Securities), the trading volume and price history of the Original Security (as therein defined) prior to but not after the commencement of trading in the Restructure Security (as therein defined), including “when-issued” trading, may be taken into account in determining whether the trading volume and market price requirements of (iii) and (iv) of this paragraph (b) are satisfied.

(c) In connection with paragraph (b)(iv) of this Section 4, BOXR shall not open for trading any additional series of options contracts of the class covering an underlying security at any time (including on a next-day, expiration or intra-day basis) when the market price per share of such underlying security closed less than \$3 on the last trading day preceding the day on which such series are added, as measured by the

closing price reported by the primary market in which the underlying security trades. In addition to closing at or above \$3 on the last trading day preceding the day series are added, BOXR shall not open for trading any additional series of options contracts on an intra-day basis unless the last reported trade in the primary market in which the underlying security trades is at least \$3 at the time BOXR determines to add the series. Notwithstanding the above, BOXR may add a series if the additional series is traded on at least one other registered national securities exchange and, at the time the additional series was listed by such other registered national securities exchange, it met the \$3 market price requirement.

(d) In considering whether any of the events specified in paragraph (b) of this Section 4 have occurred with respect to an underlying security, BOXR shall ordinarily rely on information made publicly available by the issuer and/or the markets in which such security is traded.

(e) If prior to the delisting of a class of options contracts covering an underlying security that has been found not to meet BOXR's requirements for continued approval, BOXR determines that the underlying security again meets BOXR's requirements, BOXR may open for trading additional series of options of that class and may lift any restriction on opening purchase transactions imposed by this Section 4.

(f) Whenever BOXR announces that approval of an underlying security has been withdrawn for any reason or that BOXR has been informed that the issuer of an underlying security has ceased to be in compliance with SEC reporting requirements, each Participant shall, prior to effecting any transaction in options contracts with respect to such underlying security for a Customer, inform such Customer of such fact and of the fact that BOXR may prohibit further transactions in such options contracts to the extent it shall deem such action necessary and appropriate.

(g) If an ADR was initially deemed appropriate for options trading on the grounds that fifty percent (50%) or more of the worldwide trading volume (on a share-equivalent basis) in the ADR and other related ADRs and securities takes place in U.S. markets or in markets with which BOXR has in place an effective surveillance sharing agreement, or if an ADR was initially deemed appropriate for options trading based on the daily trading volume standard in Section 3 of this Chapter IV (Criteria for Underlying Securities), BOXR may not open for trading additional series of options on the ADR unless:

- i. The percentage of worldwide trading volume in the ADR and other related securities that takes place in the U.S. and in markets with which BOXR has in place effective surveillance sharing agreements for any consecutive three (3) month period is either: (1) at least thirty percent (30%) without regard to the average daily trading volume in the ADR, or (2) at least fifteen percent (15%)

when the average U.S. daily trading volume in the ADR for the previous three (3) months is at least 70,000 shares; or

- ii. BOXR then has in place an effective surveillance sharing agreement with the primary exchange in the home country where the security underlying the ADR is traded; or
- iii. the SEC has otherwise authorized the listing thereof.

(h) Fund Shares approved for options trading pursuant to Section 3 of this Chapter IV will not be deemed to meet the requirements for continued approval, and BOXR shall not open for trading any additional series of option contracts of the class covering such Fund Shares if the issuer is delisted from trading as provided in subparagraph (b)(vi) of this Section. In addition, BOXR shall consider the suspension of opening transactions in any series of options of the class covering Fund Shares in any of the following circumstances:

- i. In the case of options covering Fund Shares approved pursuant to Section 3(i)(iv)(1), in accordance with the terms of subparagraphs (b)(i), (ii), (iii) and (iv) of this Section 4;
- ii. In the case of options covering Fund Shares approved pursuant to Section 3(i)(iv)(2) of this Chapter IV, following the initial twelve-month period beginning upon the commencement of trading in the Fund Shares on a national securities exchange or as NMS securities through the facilities of a national securities association there were fewer than 50 record and/or beneficial holders of such Fund Shares for 30 or more consecutive trading days;
- iii. the value of the index or portfolio of securities on which the Fund Shares are based is no longer calculated or available; or
- iv. such other event occurs or condition exists that in the opinion of BOXR makes further dealing in such options on BOX inadvisable.

**[(See BSE Rules Chapter XXIV-B, "Index Fund Shares", generally).]**

(i) Securities initially approved for options trading pursuant to paragraph (j) of Section 3 of this Chapter IV (such securities are defined and referred to in that paragraph as "Trust Issued Receipts") shall not be deemed to meet BOXR's requirements for continued approval, and BOXR shall not open for trading any additional series of option contracts of the class covering such Trust Issued Receipts, whenever the Trust Issued Receipts are delisted and trading in the Receipts is suspended on a national securities exchange, or the Trust Issued Receipts are no longer traded as national market

securities through the facilities of a national securities association. In addition, BOXR shall consider the suspension of opening transactions in any series of options of the class covering Trust Issued Receipts in any of the following circumstances:

- i. in accordance with the terms of paragraph (b) of this Section 4 in the case of options covering Trust Issued Receipts when such options were approved pursuant to subparagraph (j)(i)(1) under Section 3 of this Chapter IV;
- ii. the Trust has more than 60 days remaining until termination and there are fewer than 50 record and/or beneficial holders of Trust Issued Receipts for 30 or more consecutive trading days;
- iii. the Trust has fewer than 50,000 receipts issued and outstanding;
- iv. the market value of all receipts issued and outstanding is less than \$1,000,000; or
- v. such other event shall occur or condition exist that in the opinion of BOXR makes further dealing in such options on BOX inadvisable.

[\[\(See BSE Rules Chapter XXIV – A, “Trust Issued Receipts”, generally\).\]](#)

(j) For Holding Company Depositary Receipts (HOLDRs), BOXR will not open additional series of options overlying HOLDRs (without prior Commission approval) if: (1) the proportion of securities underlying standardized equity options to all securities held in a HOLDRs trust is less than 80% (as measured by their relative weightings in the HOLDRs trust); or (2) less than 80% of the total number of securities held in a HOLDRs trust underlie standardized equity options.

## **Sec. 5 Minimum Participation Requirement for Opening Trading of Option Classes**

(a) After a particular class of options has been approved for listing on BOX, BOXR will open trading in series of options in that class only if there are at least two Market Makers appointed for trading that particular class. This requirement pertains only to the initial opening of trading of any class of options or the initial opening of any series of an options class made pursuant to Section 6 of this Chapter IV.

(b) Nothing in this Section 5 shall require a single Market Maker in a class to continue trading in that class if an Options Official makes an affirmative determination that continued trading in that class by a single Market Maker is to the detriment of that

Market Maker, of no adverse consequence to an existing Customer of BOX or an Options Participant, and serves no greater purpose in the fair and orderly functioning of the marketplace.

(c) Once a class is opened for trading and subsequently only one Market Maker remains appointed to that class, BOXR may continue trading in that class if an Options Official makes an affirmative determination that halting of trading in such class is detrimental to the remaining Market Maker, and that continued trading in such class by one Market Maker is in the interest of maintaining a fair and orderly marketplace and would not create adverse consequence to an existing Customer of BOX or an Options Participant.

## **Sec. 6 Series of Options Contracts Open for Trading**

(a) After a particular class of options has been approved for listing and trading on BOX, BOXR from time to time may open for trading series of options in that class. Only options contracts in series of options currently open for trading may be purchased or written on BOX. Prior to the opening of trading in a given series, BOXR will fix the expiration month, year and exercise price of that series.

(b) At the commencement of trading on BOX of a particular class of options, BOXR usually will open three (3) series of options for each expiration month in that class in the case of individual equity options, or four (4) series of options for each expiration month in that class in the case of index options. The exercise price of each series will be fixed at a price per share, with at least one strike price above and one strike price below the price at which the underlying stock is traded in the primary market at about the time that class of options is first opened for trading on BOX.

(c) Additional series of options of the same class may be opened for trading on BOX when BOXR deems it necessary to maintain an orderly market, to meet Customer demand or when the market price of the underlying stock moves more than five strike prices from the initial exercise price or prices. The opening of a new series of options shall not affect the series of options of the same class previously opened. Additional series may be added on an individual stock until five (5) business days prior to expiration.

(d) The interval between strike prices of series of options on individual stocks will be:

- i. \$2.50 or greater where the strike price is \$25.00 or less;
- ii. \$5.00 or greater where the strike price is greater than \$25.00; and

iii. \$10.00 or greater where the strike price is greater than \$200.00.

(e) BOXR usually will open four (4) expiration months for each class of options open for trading on BOX: the first two (2) being the two (2) nearest months, regardless of the quarterly cycle on which that class trades; the third and fourth being the next two (2) months of the quarterly cycle previously designated by BOXR for that specific class. For example:

- i. If BOXR listed in late April a new stock option on a January-April- July-October quarterly cycle, BOXR would list the two (2) nearest term months (May and June) and the next two (2) expiration months of the cycle (July and October).
- ii. When the May series expires, BOXR would add a January series. When the June series expires, BOXR would add an August series as the next nearest month and would not add an April series.

(f) The interval of strike prices may be \$2.50 in any multiply-traded option class to the extent permitted on BOX by the Securities and Exchange Commission or once another exchange trading that option lists strike prices of \$2.50 on such options class.

## **Sec. 7 Adjustments**

Options contracts shall be subject to adjustments in accordance with the Rules of the Clearing Corporation. BOXR will announce adjustments, and such changes will be effective for all subsequent transactions in that series at the time specified in the announcement.

## **Sec. 8 Long-Term Options Contracts**

(a) Notwithstanding conflicting language in Section 5 of this Chapter IV (Series of Options Contracts Open for Trading), BOXR may list long-term options contracts that expire from twelve (12) to thirty-nine (39) months from the time they are listed. There may be up to six (6) additional expiration months. Strike price interval, bid/ask differential and continuity rules shall not apply to such options series until the time to expiration is less than nine (9) months.

(b) After a new long-term options contract series is listed, such series will be opened for trading either when there is buying or selling interest, or forty (40) minutes

prior to the close, whichever occurs first. No quotations will be posted for such options series until they are opened for trading.

## CHAPTER V. DOING BUSINESS ON BOX

### Sec. 1 Access to and Conduct on the BOX Market

(a) *Access to BOX.* Unless otherwise provided in the Rules, no one but a Participant or a person associated with a Participant shall effect any BOX Transactions.

(b) *BOX Conduct.* Participants and persons employed by or associated with any Participant, while using the facilities of BOX, shall not engage in conduct (i) inconsistent with the maintenance of a fair and orderly market; (ii) apt to impair public confidence in the operations of the Exchange; or (iii) inconsistent with the ordinary and efficient conduct of business. Activities that shall violate the provisions of this paragraph (b) include, but are not limited to, the following:

- i. failure of a Market Maker to provide quotations in accordance with Chapter VI, Section 6 of these Rules;
- ii. failure of a Market Maker to bid or offer within the ranges specified by Chapter VI, Section 5 of these Rules;
- iii. failure of a Participant to supervise a person employed by or associated with such Participant adequately to ensure that person's compliance with this paragraph (b) (See Constitution Articles IX, "Membership", and XVI, "Offices and Associates", generally);
- iv. failure to maintain adequate procedures and controls that permit the Options Participant to effectively monitor and supervise the entry of orders by users to prevent the prohibited practices set forth in this paragraph (b) and Chapter III, Section 2 of these Rules;
- v. failure to abide by a determination of BOXR;
- vi. effecting transactions that are manipulative as provided in Section 17 and 18(g) of this Chapter V and Chapter II, Section 26 of the Rules of the Exchange (See BSE Rules Chapter II, "Dealings on the Exchange", Sections 26-31, generally);
- vii. refusal to provide information requested by BOXR (See Constitution Article XIV, "Expulsion and Suspension", generally, and BSE Rules Chapter XVIII, "Conduct", Section 5, "Failure to Respond to Exchange Inquiries"); and

viii. failure to abide by the provisions of the sections of this Chapter V related to limitations on orders.

(c) Subject to the Rules, BOX will provide access to the Trading Host to Options Participants in good standing that wish to conduct business on BOX .

(d) Pursuant to the Rules and the arrangements referred to in this Chapter V, BOXR may:

- i. suspend an Options Participant's access to the Trading Host following a warning which may be made in writing or verbally (and subsequently confirmed in writing); or
- ii. terminate an Options Participant's access to the Trading Host by notice in writing.

## **Sec. 2 Fees and Charges**

(a) *Participation Fees.* The Board in its discretion shall fix participation fees payable by Options Participants from time to time. Fees shall be payable in full on the first day of January, April, July and October on a non- refundable basis and shall be applied to the quarter beginning on that day. (See Constitution Article X, "Dues and Fines", Section 1, "How Fixed").

(b) *Transaction Fees.* Options Participants shall pay a fee for each transaction they execute on BOX, as may be determined by the Board in its discretion. The Board may prescribe different, or no fees for different types of transactions conducted on BOX.

(c) *Other Fees.* In addition to the fees and charges specified in this Chapter, the Board may, from time to time, fix and impose other fees, assessments or charges to be paid to BOX by Options Participants or by classes of Options Participants with respect to applications, registrations, approvals, use of BOX and Trading Host facilities or other services or privileges granted.

(d) *Liability for Payment of Fees.* An Options Participant that does not pay any fees, assessments, charges, fines or other amounts due to BOX within thirty (30) days after they have become due and payable shall be reported to the Board or its delegate which may, after giving reasonable notice to the Options Participant of such arrearages, suspend the Options Participant until payment is made or terminate the Options Participant's participation on BOX. A person associated with an Options Participant who fails to pay any fine or other amounts due to BOX within thirty (30) days after such amount has become due and payable and after reasonable notice of such arrearages, may

be suspended from association with an Options Participant until payment is made. (See Constitution Article X, “Dues and Fines”, Section 2, “Failure to Pay”).

### **Sec. 3 Days and Hours of Business**

(a) The Board shall determine the days BOX shall be open for options business (referred to as “business days”) and the hours of such days during which options transactions may be made on BOX. No Options Participant shall make any bid, offer, or options transaction on BOX before or after such hours.

(b) Except for unusual conditions as may be determined by the Board, hours during which transactions in options on individual stocks may be made on BOX shall correspond to the normal business days and hours for business set forth in the rules of the primary market trading the securities underlying BOX options; provided, however, that transactions may be effected in an options class on BOX until two (2) minutes after the primary market on which the underlying security trades closes for trading. (See BSE Rules Chapter I-B, “Business Hours”, Section 1, “Primary Session”).

(c) BOX shall not be open for business on any holiday observed by the Exchange. (See BSE Rules Chapter I-B, “Business Hours”, Section 1, “Primary Session”).

### **Sec. 4 Units of Trading**

The unit of trading in each series of options traded on BOX shall be the unit of trading established for that series by the Clearing Corporation pursuant to the Rules of the Clearing Corporation and the agreements of BOXR with the Clearing Corporation.

### **Sec. 5 Meaning of Premium Quotes and Orders**

(a) *General.* Except as provided in paragraph (b), orders and quotations shall be expressed in terms of dollars per unit of the underlying security. For example, a bid of “5” shall represent a bid of \$500 for an options contract having a unit of trading consisting of 100 shares of an underlying security, or a bid of \$550 for an options contract having a unit of trading consisting of 110 shares of an underlying security.

(b) *Special Cases.* Orders and quotations for an options contract for which BOX has established an adjusted unit of trading in accordance with Section 4 of this

Chapter V shall be expressed in terms of dollars per 1/100 part of the total securities and/or other property constituting such adjusted unit of trading. For example, an offer of “3” shall represent an offer of \$300 for an options contract having a unit of trading consisting of 100 shares of an underlying security plus ten (10) rights.

## **Sec. 6 Minimum Trading Increments**

(a) The Board may establish minimum trading increments for options contracts traded on BOX. Such minimum increments established by the Board will be designated as a stated policy, practice, or interpretation with respect to the administration of this Section within the meaning of [subparagraph (3)(A) of ]Section 19[(b)] of the Exchange Act and will be filed with the SEC as a rule change for effectiveness upon filing. Until such time as the Board makes a change in the increments, the following principles shall apply: (1) if the options contract is trading at less than \$3.00 per option, five (5) cents; (2) if the options contract is trading at \$3.00 per option or higher, ten (10) cents; and (3) if the options contract is traded pursuant to the procedures of the Improvement Period in Section 18 then one (1) cent.

## **Sec. 7 Acceptance of Quotes and Orders**

All bids or offers made and accepted on BOX in accordance with the BOX Rules shall constitute binding contracts, subject to applicable requirements of the Rules the Exchange and the Rules of the Clearing Corporation. (See BSE Rules Chapter II, “Dealings on the Exchange”, Section 3, “Bids and Offers Binding”).

## **Sec. 8 Market Regulation Center**

There shall be a Market Regulation Center facility, located in or near Boston, Massachusetts, or successor United States based location in which, pursuant to procedures established by the Board, Options Officials and other BOXR personnel shall monitor and surveil options trading on BOX in order to ensure the maintenance of a fair and orderly market.

## **Sec. 9 Opening the Market**

(a) *Pre-Opening Phase.* Orders may be submitted, modified and cancelled throughout the pre-opening phase preceding the start of the market. Customers may only

submit [~~market-on~~]Market-On-[~~open~~]Opening or limit orders pursuant to Section 14(c) of this Chapter V. In addition, any open and unexecuted orders from the previous trading session, which are still valid, will remain on the BOX Book during the pre-opening phase. Market Makers shall submit orders during the pre-opening phase pursuant to their obligations under Chapter VI of these Rules. No trade matches are to occur during the pre-opening phase. BOX will calculate a theoretical opening price (“TOP”) and broadcast it to all BOX market participants throughout this period. The TOP is the price at which opening trades would occur if the opening were to commence at that given moment.

(b) *Opening Match.* BOX will determine a single price at which a particular option series will be opened. BOX will calculate the optimum number of options contracts that could be matched at a price, taking into consideration all the orders on the BOX Book.

- i. The opening match price is [~~that limit~~]the price which will result in the matching of the highest number of options contracts.
- ii. Should two or more prices satisfy the maximum quantity criteria, the price which will leave the fewest resting orders in the BOX Book will be selected as the opening match price.
- iii. Should there still be two or more prices which meet both criteria in paragraphs (i) and (ii), the price which is closest to the previous day's closing price will be selected as the opening match price.

(c) The determination of the opening match price in each [~~class~~]series of options shall be held promptly following the opening of the underlying security in the primary market where it is traded. An underlying security shall be deemed to be opened on the primary market where it is traded if such market has (i) reported a transaction in the underlying security, or (ii) disseminated opening quotations for the underlying security and not given an indication of a delayed opening, whichever first occurs.

(d) The opening match in any options class shall be delayed until the underlying security has [~~commenced~~]opened for trading in the primary market, unless BOXR determines that the interests of a fair and orderly market are best served by opening trading in the options class. In the event that the underlying security has not opened within a reasonable time after 9:30 a.m. EST, an Options Official shall report the delay to the Market Regulation Center and an inquiry shall be made to determine the cause of the delay.

(e) BOXR may delay the opening match in any class of options in the interests of a fair and orderly market.

## **Sec. 10 Trading Halts**

(a) *Halts.* An Options Official may halt trading in any option contract in the interests of a fair and orderly market. The following are among the factors that shall be considered in determining whether the trading in an option contract should be halted:

- i. trading in the underlying security has been halted or suspended in the primary market.
- ii. the opening of such underlying security has been delayed because of unusual circumstances.
- iii. occurrence of an act of God or other event outside BOX's control;
- iv. a Trading Host technical failure or failures including, but not limited to, the failure of a part of the central processing system, a number of Options Participant trading applications, or the electrical power supply to the system itself or any related system; or;
- v. other unusual conditions or circumstances are present.

(See BSE Rules Chapter I-B, "Business Hours", Section 1, "Primary Session").

(b) In the event an Option Official makes a determination to halt trading, all trading in the effected class or classes of options shall be halted. BOX shall disseminate through its trading facilities and over OPRA a symbol with respect to such class or classes of options indicating that trading has been halted, and a record of the time and duration of the halt shall be made available to vendors.

(c) No Options Participant or person associated with a Participant shall effect a trade on BOX in any options class in which trading has been halted under the provisions of this Section 10 during the time in which the halt remains in effect.

## **Sec. 11 Resumption of Trading After a Halt**

Trading in an option that has been the subject of a halt under Section 10 of this Chapter V shall be resumed upon the determination by an Options Official, that the conditions which led to the halt are no longer present or that the interests of a fair and orderly market are best served by a resumption of trading.

## **Sec. 12 Trading Halts Due To Extraordinary Market Volatility**

The Market Regulation Center shall halt trading in all options whenever a marketwide trading halt is initiated on the New York Stock Exchange (commonly known as a “circuit breaker”) in response to extraordinary market conditions.

## **Sec. 13 Unusual Market Conditions**

(a) An Options Official shall have the power to determine that the level of trading activities or the existence of unusual market conditions is such that BOX is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on BOX. Upon making such a determination, BOXR shall designate the market in such option to be “fast.” When a market for an option is declared fast, BOXR will provide notice that BOX quotations are not firm by appending an appropriate indicator to the BOX quotations.

(b) If a market is declared fast, the Options Official shall have the power to do one or more of the following with respect to the class or classes involved:

- i. Direct that one or more pre-openings be employed pursuant to Section 9 (Opening the Market) of this Chapter V.
- ii. Suspend the minimum size requirement as permitted under Chapter VI, Section 6 (Market Maker Quotations) of these Rules.
- iii. Turn off the Price Improvement [~~Process.~~]Period process. (See, Section 18 of this Chapter V.)
- iv. Take such other actions as are deemed in the interest of maintaining a fair and orderly market.

(c) BOXR will monitor the activity or conditions that caused a fast market to be declared, and an Options Official shall review the condition of such market at least every thirty (30) minutes. Regular trading procedures shall be resumed when the Options Official determines that the conditions supporting a fast market declaration no longer exist. BOXR will provide notice that its quotations are once again firm by removing the indicator from the BOX quotations.

(d) If the conditions supporting a fast market declaration cannot be managed utilizing one or more of the procedures contained in this Section 13, then the Options Official, shall halt trading in the class or classes so affected.

#### Sec. 14 Order Entry

(a) Orders for option contracts and strategies can be submitted to the Trading Host from commencement of pre-opening until market close. Submitted orders, once validated by the Trading Host, are time-stamped to within one one-hundredth of a second.

(b) On BOX :

- i. a bid is represented as an order to buy (“buy order”);
- ii. an offer is represented as an order to sell (“sell order”); and
- iii. an execution, or trade is defined as the matching of a buy order and sell order in the BOX Book.

(See BSE Rules Chapter II, “Dealings on the Exchange”, Section 6, “Bids and Offers for Stocks”).

(c) The following types of orders may be submitted to the Trading Host:

- i. *Limit Order.* Limit Orders entered into the BOX Book are executed at the price stated or better. Any residual volume left after part of a Limit Order has traded is retained in the BOX Book until it is withdrawn or traded (unless a designation described in paragraph (d) below is added which prevents the untraded part of a limit order from being retained). All Limit Orders (with the exception of those with a GTC designation as described in paragraph (d)(i) below) are automatically withdrawn by the Trading Host at market close; [and]
- ii. [*Market*]BOX-Top Order. [*Market*]BOX-Top Orders entered into the BOX Book are executed at the best price available in the market for the total quantity available from any contra bid (offer). Any residual volume left after part of a [*Market*]BOX-Top Order has been executed is automatically converted to a limit order at the price at which the original [*market order*]BOX Top Order was executed.

- iii. *Market -on -Opening Order.* Market -on -Opening Orders entered into the BOX Book are executed on the market opening at the best price(s) available in the market until all available volume on the opposite side of the market has been traded. Any residual volume left after part of a Market -on -Opening Order has been executed is automatically converted to a limit order at the price at which the original Market-on-Opening Order was executed. Market-on-Opening Orders have priority over Limit Orders[ **and are executed as a Market Order, as set forth above**].
- (d) Where no order type is specified, the Trading Host will reject the order.
- i. The following designations can be added to one or both of the order types referred to in paragraph (c) above:
- 1) *Good 'Til Cancelled (GTC).* A GTC designation can be added to Limit Orders and remain in the BOX Book until the order:
    - a. trades;
    - b. is withdrawn by the relevant responsible trader or BOX at the Options Participant's request;
    - c. is automatically withdrawn by the Trading Host at market close on the date specified at the time of order entry; or
    - d. is automatically cancelled by the Trading Host on expiration of the contract month to which the order related;
  - [1]2) *Fill and Kill (FAK).* An FAK designation can be added to Limit Orders. FAK orders are immediately executed against any existing orders at the specified price or better up to the volume of the FAK order. Any residual volume left after part of the FAK order has traded will be automatically cancelled by the Trading Host;
  - [2]3) *Fill-Or-Kill (FOK).* An FOK designation can be added to Limit Orders. FOK orders will only be executed if there is sufficient volume available at the specified price or better for the order to be executed in full. If this is not the case

the order will be automatically cancelled by the Trading Host; and

[3]4) *Minimum Volume (MV)*. An MV designation can be added to both Limit Orders and [Market]BOX Top Orders. MV orders will only be executed if the specified minimum volume is immediately available to trade (at the specified price or better in the case of Limit Orders). Where a volume equal to or greater than the specified minimum volume of an MV order has traded, the residual volume will be retained in the BOX Book in the case of Limit Orders.

(e) The identity of Options Participants who submit orders to the Trading Host will remain anonymous to market participants at all times, except during error resolution or through the normal clearing process as set forth in Chapter V, Section 16(a)(vi) of these Rules.

(f) Orders can be edited once they are held in the BOX Book. Editing of orders may be applied to price, volume and cancellation date (for GTC orders). The time-stamp assigned by the Trading Host at the entry of the original order will be updated if either the price is changed or the volume increased (i.e., the order will assume an inferior position in the time priority “queue”). A reduction in volume or an amendment to the cancellation date has no effect on the time-stamp.

(g) Orders held in the BOX Book can be withdrawn, individually or as a block, by the relevant Participant or under his authority.

(h) All orders with the exception of GTC orders will be purged at market close. All orders, including GTC orders, will be cancelled at close of business on the last trading day of the expiration month to which they relate.

(i) In the event of failure of the Trading Host, all orders will be represented in the pre-opening phase upon return of system functionality pursuant to the procedures established under Section 9 of this Chapter V. (See also Section 27 of this Chapter V).

## **Sec. 15 Audit Trail**

(a) *Order Identification*. When entering orders on BOX, each Options Participant shall submit order information in such form as may be prescribed by BOXR in order to allow BOX to properly prioritize and match orders pursuant to Section 16 of this Chapter V and report resulting transactions to the Clearing Corporation. An Options

Participant must ensure that each options order received from a Customer for execution on BOX is recorded on an order ticket and time-stamped immediately. The order ticket must be time-stamped again on execution and also at the time of any modification or cancellation of the order by the Customer.

(b) Order tickets relating to BOX must contain the following information at a minimum:

- i. a unique order identification;
- ii. the underlying security;
- iii. opening/closing designation;
- iv. the identity of the Clearing Participant;
- v. Options Participant identification;
- vi. Participant Capacity (a code representing whether the Options Participant is either (1) Order Flow Provider or (2) Market Maker, is mandatory);
- vii. identity of the individual/terminal completing the order ticket;
- viii. customer identification (a code representing whether the customer is either a (1) Public Customer, (2) broker-dealer, or (3) Market Maker, is mandatory);
- ix. account identification;
- x. buy/sell;
- xi. contract volume;
- xii. contract month;
- xiii. exercise price;
- xiv. put/call;
- xv. price or price limit, price range or strategy price;
- xvi. special instructions (e.g., GTC); and
- xvii. strategy type indicator;

xviii. and such other information as may be required by BOX.

(c) An Options Participant that employs an electronic system for order routing or order management which complies with BOX requirements will be deemed to be complying with the requirements of this Section if the required information is recorded in electronic form rather than in written form.

(d) In addition to any related requirement under applicable securities laws, information recorded pursuant to this Section must be retained by Options Participants for a period of no less than three (3) years after the date of the transaction.

## **Sec. 16 Execution and Price/Time Priority**

(a) *Order Ranking and Display.* Except as provided for in Section 18 of this Chapter V ([Price Improvement Period](#)), BOX shall display to Options Participants all non-marketable limit orders in the BOX Book in the manner described below. BOX will also disseminate current consolidated quotations/last sale information, and such other market information as may be made available from time to time pursuant to agreement between BOX and OPRA.

i. *Ranking.* Orders of Options Participants shall be ranked and maintained in the BOX Book according to price-time priority, such that within each price level, all orders shall be organized by the time of entry in the following manner.

- 1) Limit orders, with no other conditions, shall be ranked ahead of all other orders based on the specified limit price and the time of original order entry.
- 2) Conditional orders shall be ranked behind all unconditional limit orders at the specified limit price based upon the time of order entry with earlier orders receiving priority.

(See BSE Rules Chapter II, “Dealings on the Exchange”, Section 6, “Bids and Offers for Stocks”).

ii. *Display.* The number of orders and their total quantity at each of the 5 best price levels in the BOX Book shall be displayed to all Options Participants on an anonymous basis.

iii. *Dissemination.* The best-ranked price level to buy and the best ranked price level to sell in the BOX Book and the aggregate size

of orders associated with such prices shall be collected and made available to quotation vendors for dissemination pursuant to the requirements of Rule 11Ac1-1 under the Exchange Act.

- iv. *Order Matching and Trade Priority.* The Trading Host accepts buy and sell orders in the respective sequence in which the Trading Host receives such orders. The following criteria will determine order matching and trade execution priority:
- 1) *Price.* A buy order at the highest price and a sell order at the lowest price have priority over other orders in the same series/ strategy; and
  - 2) *Time.* A buy/sell order at the best price will trade in sequence according to the time it was accepted by the Trading Host, from earliest time stamp to latest.
  - 3) *Trade.* A trade occurs when orders or quotations match in the Trading Host. An order entered into the Trading Host that matches an order in the Trading host will trade at the price of the order in the Trading Host up to the available size.
- v. Where the BOX market is crossed (bids higher than offers) at market open, the Trading Host, pursuant to Section 9 of this Chapter V, will run an uncrossing algorithm to calculate the price at which the maximum volume can be traded and automatically execute trades accordingly. Any orders executed in this way will be traded at a price equal to or better than that at which they were entered and any untraded bids and/or offers will remain on the BOX Book.
- vi. The details of each trade on BOX will be automatically reported by the Trading Host to the Trade Reporting System. All post-trade details will be published on an anonymous basis. However, for each trade, counterparty details will be made available[ **on a delayed basis**] after the trade is executed to Options Participants that were party to the trade through the normal clearing process. Options Participants are required to keep this information confidential and not allowed to disclose it to any person other than those who are required to know it, or their professional advisers, except where required by law or applicable regulation.

- vii. Options Participants are required to make available personnel responsible for the resolution of trade processing queries, trade disputes and “out trades” when required to do so by BOX.

(b) *Filtering of BOX In-Bound Orders to Prevent Trade-Throughs.*

i. All inbound orders to BOX from Customers as well as inbound Principal (“P”) and Principal as Agent (“P/A”)(see Chapter XII, “Intermarket Linkage Rules”, herein) orders received via InterMarket Linkage will be filtered by the Trading Host prior to entry on the BOX Book to ensure that these orders will not execute at a price outside the current NBBO (“trade- throughs”).

ii. The Trading Host will filter the relevant orders as follows:

The filter will determine if the order is executable against the NBBO.

1) If the order is not executable against the NBBO, the order will be placed on the BOX Book.

2) If the order is executable against the NBBO, the filter will determine whether there is a quote on BOX that is equal to the NBBO.

a. If there is a quote on BOX that is equal to the NBBO, then the order is executed against the relevant quote;

b. If there is not a quote on BOX that is equal to the NBBO, then the order is exposed on the BOX Book at the NBBO for a period of three seconds.

c. Any unexecuted quantity of the order which remains on the book after three seconds will be, i) in the case of P or PA orders, returned to the originating exchange, or ii) in the case of Public Customer orders, sent as PA orders to the exchange displaying the NBBO.

iv. Trades at a price outside the NBBO could occur despite this filter mechanism if the trade occurs because of an inbound Market Maker order/quote or Participant proprietary order (neither of which are filtered). In this case, the BOX Rules require, pursuant

to the BOX InterMarket Linkage Rules set forth in Chapter XII herein, that the “offending” Participant respond to any Satisfaction Requests.

## **Sec. 17 Customer Orders and Order Flow Providers**

(a) Order Flow Providers (OFP) are those Options Participants representing as agent Customer Orders on BOX. OFPs may register as Market Makers, but are not required to do so.

(b) Options Participants may trade as principal, both as contra party to Customer Orders submitted to BOX by such Options Participant and as contra party to other Options Participants' orders. However, Options Participants may only seek to act as contra party to their own Customer Orders pursuant to the rules of the Price Improvement Period (Section 18 of this Chapter V).

*[(c) Participation Assessment. An Options Participant, other than a Market Maker in its appointed class(es), who transacts, as principal or as agent submitting orders on behalf of the proprietary account of other broker-dealers, more than two times the number of Public Customer contracts executed by such Options Participant in a given month shall pay to BOX a per contract surcharge to be determined by the Board. ]*

### **Supplementary Material to Section 17**

.01 This Section prevents an Options Participant executing agency orders to increase its economic gain from trading against the order without first giving other trading interest on BOX an opportunity to trade with the agency order pursuant to Section 18 of this Chapter V (Price Improvement Period). However, BOXR recognizes that it may be possible for an Options Participant to establish a relationship with a Customer or other person to deny agency orders the opportunity to interact on BOX and to realize similar economic benefits as it would achieve by executing agency orders as principal. It will be a violation of this Section for an Options Participant to circumvent this Section by providing an opportunity for a Customer to execute against agency orders handled by the Options Participant immediately upon their entry into the Trading Host.

.02 If an Options Participant fails to expose its Customer Orders on BOX as required by Section 18 of this Chapter V (Price Improvement Period), it will be a violation of this Section 17 for an Options Participant to cause the execution of an order it represents as agent on BOX through the use of orders it solicited from Options Participants and/or non-Participant broker-dealers to transact with such orders, whether such solicited orders are entered into the BOX market directly by the Options Participant or by the solicited party (either directly or through another Participant).

.03 Prior to submitting an order to the Price Improvement Period process, pursuant to Section 18 of this Chapter V, an OFP cannot inform an Options Participant of any of the terms of the order, except as provided for in Chapter VI, Section 5(c) of these Rules. (See BSE Rules, Chapter II, “Dealings on the Exchange”, Section 36, “Specialist Member Organizations Affiliated with an Approved Person”).

## **Sec. 18 The Price Improvement Period (“PIP”)**

(a) The execution of price improvement transactions via the BOX market is permitted under certain circumstances subject to the procedures detailed herein. In compliance with these procedures, price improvement transactions for Customer Orders may be consummated with the Options Participant who submits the order, with other Options Participants or with other Customers’ “unrelated orders”.

*Note:* For purposes of this Section 18 and Section 19 of this Chapter V, an “unrelated order” shall be defined as a non-Improvement Order entered into the BOX market during a PIP.

(b) Options Participants must ensure that, when executing Customer Orders by way of the Price Improvement Period[ (“PIP”)], they comply with all the procedures set forth in these Rules for such transactions; that they act with due skill, care and diligence, and that the interests of their Customers are not prejudiced.

(c) [Orders]Except for Market Makers handling Directed Orders pursuant to Chapter V, Section 5(b) and (c) of these Rules, orders for which matching business has been found by pre-arrangement must be executed by the PIP method, described below, unless (i) agency orders are first exposed to the BOX book for at least thirty (30) seconds, or (ii) the OFP has been bidding or offering on BOX for at least thirty (30) seconds prior to receiving an agency order that is executable against such bid or offer. An [Options Participant]OFP must not otherwise deliberately seek to effect a transaction under a single Options Participant or between two Options Participants other than by following the PIP procedures.

(d) An Options Participant must not use the PIP system to create a misleading impression of market activity (i.e., the facilities may be used only where there is a genuine intention to execute a bona fide transaction).

(e) Options Participants executing agency orders may designate [market]BOX-Top and marketable limit Customer Orders for price improvement and submission to the PIP. Customer Orders designated for the PIP shall be submitted to BOX with a matching contra order, the “Primary Improvement Order”, equal to the full size of the Customer Order. The Primary Improvement Order shall be on the opposite

side of the market than that of the Customer Order and represent a higher bid (lower offer) than that of the National Best Bid Offer (NBBO) at the time of the commencement of the PIP. BOX will not permit a PIP to commence unless at least three (3) Market Makers were quoting in the relevant series at the time an Options Participant submits a Primary Improvement Order to initiate a PIP. BOX will commence a PIP by broadcasting a message to Participants that (1) states that a Primary Improvement Order has been processed; (2) contains information concerning series, size, price and side of market, and; (3) states when the PIP will conclude (“PIP Broadcast”).

- i. The PIP shall be 3 seconds, commencing upon the dissemination of the PIP Broadcast. During the PIP, [BOX] Market Makers may submit competing orders, “Improvement Orders”, for only those classes within their appointment. Unless registered as a Market Maker in the appropriate class, Options Participants may submit Improvement Orders only in a PIP for which they have submitted the Primary Improvement Order[.], or for which they hold a Customer PIP Order, in accordance with the requirements of Paragraph (g) of this Section 18. Market Makers and Options Participants meeting the foregoing criteria shall be deemed “PIP Participants” for that specific PIP only, and may continually submit competing Improvement Orders during that PIP. During the PIP, Improvement Orders shall be disseminated solely to [BOX] Options Participants.
- ii. No PIP Participant is permitted to cancel or to modify the size of its Primary Improvement Order or the Customer Order at any time during the PIP, and a PIP Participant may modify only the price of its Primary Improvement Order by improving it. The subsequent price modifications to a Primary Improvement Order are treated as new Improvement Orders for the sake of establishing priority in the PIP process. Market Makers, except for a Market Maker that submits a Primary Improvement Order, may: 1) submit competing Improvement Order(s) for any size up to the size of the Customer Order; 2) submit competing Improvement Order(s) for any price equal to or better than the Primary Improvement Order; 3) improve the price of their Improvement Order(s) at any point during the PIP; and 4) decrease the size of their Improvement Order(s) only by improving the price of that order.
- iii. At the conclusion of the PIP, the Customer Order shall be matched against the best prevailing order(s) on BOX, whether Improvement Order(s) or unrelated order(s) received by BOX during the PIP, in accordance with price/time priority as set forth in Section 16 of

this Chapter V, (except as provided in paragraph (f) of this Section 18 and paragraphs (b) and (c) of Section 19 below). Any portion of an Improvement Order left unfilled shall be cancelled.

(f) If a PIP Participant submits a Customer Order to the PIP process for price improvement and submits the Primary Improvement Order (in accordance with Paragraph (e) of this Section 18), such PIP Participant retains certain priority and trade allocation privileges upon conclusion of the PIP, as follows:

- i. In instances in which the PIP Participant's Primary Improvement Order as modified (if at all) is matched by or matches any competing Improvement Order(s) and/or unrelated order(s) at any price level, the PIP Participant retains priority for only forty percent (40%) of any unexecuted portion of the Customer Order available at that price level, notwithstanding the time priority of the Primary Improvement Order, competing Improvement Order(s) or unrelated order(s). The PIP Participant will receive additional allocation only after all other orders have been filled at that price level.
- ii. Notwithstanding the provisions of (i) above, in all cases in which the Primary Improvement Order has priority it shall be entitled to a trade allocation of at least one (1) contract.

*Note:* It shall be considered conduct inconsistent with the just and equitable principles of trade for any Options Participant to engage in a pattern of conduct where the Options Participant submits Primary Improvement Orders into the PIP process for 2 contracts or less for the purpose of manipulating the PIP process in order to gain a higher allocation percentage than the Options Participant would have otherwise received in accordance with the allocation procedures set forth in this Section 18.

(g) OFPs may provide access to the PIP on behalf of a customer that is not a broker-dealer ("Public Customer") in the form of a Customer PIP Order ("CPO") provided that:

- i. The terms of each CPO shall include a price stated in rounded five cent or ten cent increments, as appropriate, ("standard tick") at which the order shall be placed in the BOX Book ("BOX Book Reference Price") as well as a specific price stated in one cent increments ("penny tick") at which the Public Customer wishes to participate in any PIPs ("CPO PIP Reference Price") that may occur while his order is on the BOX Book and displayed at the BOX Book Reference Price;

- ii. The terms of each CPO shall include a specific order size (“CPO Total Size”). The number of contracts that may be entered into a PIP must be equal to the lesser of (a) the CPO Total Size remaining on the BOX Book or (b) the size of the Primary Improvement Order submitted to the PIP;
- iii. In order for the CPO to be eligible for participation in a PIP in the subject options series, the BOX Book Reference Price for a CPO at the time a PIP commences must be equal to the NBBO.
- iv. The CPO may only participate in a PIP on the same side of the market as the Primary Improvement Order.
- v. Upon initiation of a PIP for which a CPO is eligible to participate pursuant to paragraphs (i)-(iv) above, the OFP who submitted the CPO to the BOX Book must submit a CPO to the PIP at the CPO PIP Reference Price.
- vi. The terms of any CPO submitted to a PIP may not be amended or cancelled at any time during a PIP;

(h) In cases where an unrelated order is submitted to BOX on the same side as the Customer Order, such that it would cause an execution to occur prior to the end of the PIP, the PIP shall be deemed concluded and the Customer Order shall be matched pursuant to Paragraph (e)(ii) of this Section 18, above.

[i. ]It shall be considered conduct inconsistent with just and equitable principles of trade for any Participant to enter unrelated orders into BOX for the purpose of disrupting or manipulating the Improvement Period process.

(i) Improvement Orders must be submitted in increments no smaller than one penny (\$.01). Improvement orders will be displayed to BOX Options Participants, but will not be disseminated to OPRA[ for the purpose of the calculation of the NBBO].

(j) Improvement Orders may not be executed unless the price is better than the NBBO at the commencement of the PIP, except in the following circumstances:

- i. Where an Options Official determines that quotes from one or more particular markets in one or more classes of options are not reliable, the Options Official may direct the senior person in charge of BOX's Market Control Center to exclude the unreliable quotes from the Improvement Period determination of the NBBO in the particular option class(es). The Options Official may

determine quotes in one or more particular options classes in a market are not reliable only in the following circumstances:

- 1) Quotes Not Firm: A market's quotes in a particular options class are not firm based upon direct communication to the Exchange from the market or the dissemination through OPRA of a message indicating that disseminated quotes are not firm;
  - 2) Confirmed Quote Problems: A market has directly communicated to the Exchange or otherwise confirmed that the market is experiencing systems or other problems affecting the reliability of its disseminated quotes.
- ii. The away options exchange posting the NBBO is conducting a trading rotation in that options class.

### **Supplementary Material to Section 18**

Initially, and for at least a Pilot Period of eighteen months from the commencement of trading on BOX, there will be no minimum size requirement for Customer Orders to be eligible for the PIP process. During this Pilot Period, BOXR will submit certain data, periodically as required by the Commission, to provide supporting evidence that, among other things, there is meaningful competition for all size PIP orders, that there is significant price improvement for all orders executed through the PIP, and that there is an active and liquid market functioning on BOX outside of the PIP mechanism. Any data which is submitted to the Commission by BOXR will be provided on a confidential basis.

### **Sec. 19 Market Maker Prime**

(a) At the commencement of each PIP, a single Market Maker Prime may be designated for that PIP only. In order to qualify as the Market Maker Prime for a particular PIP, a Market Maker who is participating in a PIP must satisfy the following criteria:

- i. The Market Maker must have a quote at the moment the PIP commences that is equal to the NBBO, on the same side of the market as the Primary Improvement Order.
- ii. The Market Maker's quote must represent an order in the BOX Book with the best price/time priority.

iii. The Market Maker Prime must not have submitted the Primary Improvement Order to commence the relevant PIP.

(b) The Improvement Order of the Market Maker Prime shall have partial priority over all other Market Maker Improvement Orders and unrelated orders at the same limit price in the same PIP, pursuant to Paragraph (c) of this Section 19. This priority will only apply if a Market Maker Prime enters an Improvement Order during the PIP, and will not apply to the quote of the Market Maker Prime outside of the PIP process.

(c) An Improvement Order of the Market Maker Prime will have a guaranteed trade allocation of at least one-third of any portion of a Customer Order remaining at the Improvement Order's limit price which has not been previously allocated, in accordance with the allocation provisions set forth in Section 18 of this Chapter V, to the Options Participant who submitted the Primary Improvement Order.

(d) If a Market Maker Prime cancels his quote during the PIP, the Market Maker Prime retains his status as Market Maker Prime for that PIP. Consequently, if the Market Maker Prime subsequently enters an Improvement Order at the best limit price during the PIP, the Market Maker Prime will have priority over all other Market Maker Improvement Orders and unrelated orders at the same limit price.

(e) If a Market Maker Prime changes his quote during the PIP, instead of entering an Improvement Order into the PIP process, the Market Maker Prime does not retain his status as the Market Maker Prime for that PIP. Consequently, subsequent trade matching during the remainder of that PIP will follow the normal PIP priority rules, as set forth in Section 18 of this Chapter V, and the Market Maker Prime's modified quote will be treated as an unrelated order.

## **Sec. 20 Obvious Errors**

(a) BOXR shall either bust a transaction or adjust the execution price of a transaction that results from an obvious error as provided in this Section ("Obvious Error).

(b) *Definition of Obvious Error.* For purposes of this Section only, an Obvious Error will be deemed to have occurred under the following circumstances:

- i. if the Theoretical Price of the option is less than \$3.00:
  - 1) the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount of 35 cents or more; or

- 2) during fast market conditions (i.e., BOXR has declared a fast market status for the option in question), the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount of 50 cents or more.
- ii. if the Theoretical Price of the option is \$3.00 or higher:
    - 1) during regular market conditions (including the opening match) the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least two (2) times the maximum bid/ask spread allowed for the option so long as such amount is 50 cents or more; or
    - 2) during fast market conditions (i.e., BOXR has declared a fast market status for the option in question), the execution price of a transaction is higher or lower than the Theoretical Price for the series by an amount equal to at least three (3) times the maximum bid/ask spread allowed for the option, so long as such amount is 50 cents or more.

(c) *Definition of Theoretical Price.* For purposes of this Section only, the Theoretical Price of an option is:

- i. if the series is traded on at least one other options exchange, the last bid or offer, just prior to the trade found on the exchange that has the most liquidity in that option as provided in Supplementary Material .02 below: or
- ii. if there are no quotes for comparison purposes, as determined by the MRC.

(d) *Adjustments.* Where the *execution* price of a transaction executed as the result of an Obvious Error is adjusted, the adjusted price will be:

- i. the Theoretical Price of the option in the case where the erroneous price is displayed in the market and subsequently executed by quotes or orders that did not exist in the Trading Host at the time the erroneous price was entered: or
- ii. the last bid or offer, just prior to the trade, found on the exchange that has the most liquidity in that option as provided in Supplementary Material .03 below in the case where an erroneous

price executes against quotes or orders already existing in the Trading Host at the time the erroneous price was entered.

(e) *Obvious Error Procedure.* Designated personnel in the MRC shall administer the application of this Rule as follows.

- i. Notification. If a Market Maker on BOX believes that it participated in a transaction that was the result of an Obvious Error, it must notify MRC within five (5) minutes of the execution. If a non Market Maker Options Participant believes an order it executed on BOX was the result of an Obvious Error, it must notify MRC within twenty (20) minutes of the execution. Except as provided below, no relief under this Section will be provided unless notification is made within the prescribed time periods.
- ii. Adjust or Bust. MRC will determine whether there was an Obvious Error as defined above. If it is determined that an Obvious Error has occurred, MRC shall take one of the following actions: (i) where each party to the transaction is a Market Maker on BOX, the execution price of the transaction will be adjusted unless both parties agree to bust the trade within ten (10) minutes of being notified by MRC of the Obvious Error (ii) where at least one party to the Obvious Error is not a Market Maker on BOX the trade will be busted unless both parties agree to adjust the price of the transaction within thirty (30) minutes of being notified by MRC of the Obvious Error.

(f) *Request for Review.* If a party affected by a determination made under this Rule so requests within the time permitted below, the BOXR Chief Regulatory Officer will review decisions made by the MRC under this Rule, including whether an Obvious Error occurred, whether the correct Theoretical Price was used, and whether an adjustment was made at the correct price. A party may also request that the BOXR Chief Regulatory Officer provide relief under this Rule in cases where the party failed to provide the notification required in paragraph (e)(i) and MRC declined to grant an extension, but unusual circumstances must merit special consideration. A request for review must be made in writing within thirty (30) minutes after a party receives verbal notification of a final determination by MRC under this Rule, except that if notification is made after 3:30 p.m. Eastern Time, either party has until 9:30 a.m. Eastern Time the next trading day to request review. The BOXR Chief Regulatory Officer shall review the facts and render a decision on the day of the transaction, or the next trade day in the case where a request is properly made after 3:30 on the day of the transaction or where the request is properly made the next trade day.

(g) *Decision.* The BOXR Chief Regulatory Officer may overturn or modify an action taken by MRC under this Rule. All determinations by the BOXR Chief Regulatory Officer shall constitute final Exchange action on the matter at issue.

### **Supplementary Material to Section 20**

.01 For purposes of paragraph (a) of this Section, the maximum bid/ask spread shall be the maximum bid/ask spread allowed under Chapter VI, Section 5(a)(vii) (Obligations of Market Makers), unless a wider spread has been allowed by BOX for the option because of unusual market conditions, such as high market volatility.

.02 The Theoretical Price will be determined under paragraph (c)(i) above as follows: (1) the bid price from the exchange providing the most volume will be used with respect to an erroneous bid price entered on BOX, and (2) the offer price from the exchange providing the most volume will be used with respect to an erroneous offer price entered on BOX.

.03 The price to which a transaction is adjusted under paragraph (d)(2) above will be as follows: (i) the bid price from the exchange providing the most volume for the option will be used with respect to an erroneous offer price entered on BOX, and (ii) the offer price from the exchange providing the most volume for the option will be used with respect to an erroneous bid price entered on BOX.

.04 When MRC determines that an Obvious Error has occurred and action is warranted under paragraph (e) above, the identity of the parties to the trade will be disclosed to each other in order to encourage conflict resolution.

### **Sec. 21 Transaction Price Binding**

The price at which an order is executed shall be binding notwithstanding that an erroneous report in respect thereto may have been rendered, or no report rendered. A report shall not be binding if an order was not actually executed but was reported to have been executed in error. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 3, "Bids and Offers Binding").

## **Sec. 22 Clearing Participant Give Up**

An Options Participant must give up the name of the Clearing Participant through which the transaction will be cleared. If there is a subsequent change in identity of the Clearing Participant through whom a transaction will be cleared, the Options Participant must, as promptly as possible, report such change to BOX. (See BSE Rules Chapter VII, “Carrying of Accounts”, Section 4, “Give-Ups”).

## **Sec. 23 Submission for Clearance**

(a) All options transactions effected on BOX shall be submitted for clearance to the Clearing Corporation, and all such transactions shall be subject to the Rules of the Clearing Corporation. Every Clearing Participant shall be responsible for the clearance of BOX Transactions of such Clearing Participant and of each Options Participant that gives up such Clearing Participant’s name pursuant to a letter of authorization, letter of guarantee or other authorization given by such Clearing Participant to such Options Participant, which authorization must be submitted to BOXR.

(b) On each business day at or prior to such time as may be prescribed by the Clearing Corporation, BOX shall furnish the Clearing Corporation a report of each Clearing Participant’s matched trades.

## **Sec. 24 Contracts of Suspended Participants**

(a) When an Options Participant, other than a Clearing Participant, is suspended pursuant to Chapter IX of these Rules (Summary Suspension), all open short positions of the suspended Options Participant in options contracts and all open positions resulting from exercise of options contracts, other than positions that are secured in full by a specific deposit or escrow deposit in accordance with the Rules of the Clearing Corporation, shall be closed without unnecessary delay by all Participants carrying such positions for the account of the suspended Participant; provided that BOXR may cause the foregoing requirement to be temporarily waived for such period as it may determine if it shall deem such temporary waiver to be in the interest of the public or the other Participants of BOX. (See BSE Rules Chapter VI, “Failure to Fulfill Contracts”, generally).

(b) No temporary waiver hereunder by BOXR shall relieve the suspended Options Participant of its obligations or of damages, nor shall it waive the close out requirements of any other Rules. (See BSE Rules Chapter VI, “Failure to Fulfill Contracts”, generally).

(c) When a Clearing Participant is suspended pursuant to Chapter IX (Summary Suspension) of these Rules, the positions of such Clearing Participant shall be closed out in accordance with the Rules of the Clearing Corporation.

## **Sec. 25 Failure to Pay Premium**

(a) When the Clearing Corporation shall reject a BOX Transaction because of the failure of the Clearing Participant acting on behalf of the purchaser to pay the aggregate premiums due thereon as required by the Rules of the Clearing Corporation, the Options Participant acting as or on behalf of the writer shall have the right either to cancel the transaction by giving notice thereof to the Clearing Participant or to enter into a closing writing transaction in respect of the same options contract that was the subject of the rejected BOX Transaction for the account of the defaulting Clearing Participant.

(b) Such action shall be taken as soon as possible, and in any event not later than 10:00 A.M. EST on the business day following the day the BOX Transaction was rejected by the Clearing Corporation.

## **Sec. 26 Limitation of Liability**

(a) Neither, the Exchange, BOXR, BOX, or any of their respective affiliates with regard to BOX will be liable to Options Participants or users for any loss, damages, claim or expense:

- i. growing out of the use or enjoyment of BOX or the Trading Host;  
or
- ii. arising from or occasioned by any inaccuracy, error or delay in, or omission of or from the collection, calculation, compilation, maintenance, reporting or dissemination of any information derived from BOX, resulting either from any act or omission by the Exchange, BOXR, BOX or any of their affiliates, or from any act, condition or cause beyond the reasonable control of the Exchange, BOXR, BOX or any of their affiliates, including but not limited to flood, extraordinary weather conditions, earthquakes or other acts of God, fire, war, insurrection, riot, labor dispute, accident, action of government, communications or power failure, or equipment or software malfunction

- iii. Generally, in the event of a BOX market outage, or interruption of service, a loss pertaining to an order that is entered into BOX will be absorbed by the order entering Participant organization.

(b) The Exchange, BOXR, BOX or any of their affiliates, its directors, officers, committee Participants, employees, contractors or agents shall not be liable to Options Participants nor any persons associated with Participants for any loss, expense, damages or claims arising out of the use of the facilities, systems or equipment afforded by BOX in relation to the BOX market, nor any interruption in or failure or unavailability of any such facilities, systems or equipment, whether or not such loss, expense, damages or claims result or are alleged to result from negligence or other unintentional errors or omissions on the part of the Exchange, BOXR, BOX or any of their affiliates, its directors, officers, committee Participants, employees, contractors, agents or other persons acting on its behalf, or from systems failure, or from any other cause within or outside the control of BOX.

(c) The Exchange, BOXR, BOX or any of their affiliates make no warranty, express or implied, as to results to be obtained by any person or entity from the use of any data transmitted or disseminated by or on behalf of BOX or any reporting authority designated by BOX, including but not limited to, reports of transactions in or quotations for securities traded on BOX or underlying securities, or reports of interest rate measures or index values or related data, and the Exchange, BOXR, BOX or any of their affiliates make no express or implied warranties of merchantability or fitness for a particular purpose or use with respect to any such data.

(d) No Options Participant or person associated with an Options Participant shall institute a lawsuit or other legal proceeding against the Exchange, BOXR, BOX or any of their affiliates or any director, officer, employee, contractor, agent or other official of the Exchange, BOXR, BOX or any subsidiary of the Exchange, BOXR, BOX or any of their affiliates, for actions taken or omitted to be taken in connection with the official business of BOX or any subsidiary, except to the extent such actions or omissions constitute violations of applicable federal securities laws for which a private right of action exists. This provision shall not apply to appeals of disciplinary actions or other actions by BOXR as provided for in the Rules.

(See BSE Rules Chapter XXXIII, "BEACON", Section 7, "BEACON Liability").

## Sec. 27 Complex Orders

(a) *Complex Orders Defined.* A complex order is any order for the same account, but is not limited to, the following:

- i. Spread Order. A spread order is an order to buy a stated number of call (put) option contracts and to sell the same number of call (put) option contracts, of the same class of options.
- ii. Straddle Order. A straddle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts on the same underlying security which contracts have the same exercise price and expiration date (e.g., an order to buy two XYZ July 50 calls and to buy two XYZ July 50 puts).
- iii. Strangle Order. A strangle order is an order to buy (sell) a number of call option contracts and the same number of put option contracts in the same underlying security, which contracts have the same expiration date (e.g., an order to buy two ABC June 40 calls and to buy two ABC June 35 puts).
- iv. Combination Order. A combination order is an order involving a number of call option contracts and the same number of put option contracts in the same underlying security and representing the same number of shares at option.
- v. Combination orders with non-equity options legs. One or more legs of a complex order may be to purchase or sell a stated number of units of another security.
  - 1) Stock-Option Order. A stock-option order is an order to buy or sell a stated number of units of an underlying stock or a security convertible into the underlying stock (“convertible security”) coupled with either (i) the purchase or sale of option contract(s) on the opposite side of the market representing either the same number of units of the underlying stock or convertible security or the number of units of the underlying stock necessary to create a delta neutral position; or (ii) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of stock, as and on the opposite

side of the market from, the stock or convertible security portion of the order.

- 2) **SSF-Option Order.** A SSF-option order is an order to buy or sell a stated number of units of a single stock future or a security convertible into a single stock future (“convertible SSF”) coupled with either (A) the purchase or sale of option contracts(s) on the opposite side of the market representing either the same number of units of stock underlying the single stock future or convertible SSF, or the number of units of stock underlying the single stock future or convertible SSF necessary to create a delta neutral position; or (B) the purchase or sale of an equal number of put and call option contracts, each having the same exercise price, expiration date, and each representing the same number of units of underlying stock, as and on the opposite side of the market from, the stock underlying the single stock future or convertible SSF portion of the order.
- vi. **Ratio Order.** A spread, straddle or combination order may consist of a different number of contracts, so long as the number of contracts differs by a permissible ratio. For purposes of this paragraph, a permissible ratio of contracts is any of the following : For purposes of this paragraph, a permissible ratio of contracts is any ratio that is equal to or greater than 0.5. For example, a one-to-two ratio (which is equal to 0.5) and a six-to-ten ratio (which is equal to 0.6) are permitted, but a one-to-three ratio (which is equal to 0.33) is not.
- vii. **Butterfly Spread Order.** A butterfly spread order is an order involving three series of either put or call options all having the same underlying security and time of expiration and, based on the same current underlying value, where the interval between the exercise price of each series is equal, which orders are structured as either (i) a “long butterfly spread” in which two short options in the same series offset by one long option with a higher exercise price and one long option with a lower exercise price or (ii) a “short butterfly spread” in which two long options in the same series are offset by one short option with a higher exercise price and one short option with a lower exercise price.
- viii. **Box Spread Order.** A box spread order is an order involving (a) a long call option and a short put option with the same exercise price, coupled with (b) a long put option and a short call option

with the same exercise price; all of which have the same underlying security and time of expiration.

- ix. Collar Order. A collar order is an order involving the sale of a call option coupled with the purchase of a put option in equivalent units of the same underlying security having a lower exercise price than, and same expiration date as, the sold call option.

(b) *Applicability of BOX Rules.* Except as otherwise provided in this Section, complex orders shall be subject to all other BOX Rules that pertain to orders generally.

- i. Minimum Increments. Bids and offers on complex orders may be expressed in any decimal price pursuant to Section 6 of this Chapter V (Minimum Trading Increments)[. ], regardless of the minimum increments otherwise appropriate to the individual legs of the order. Complex orders expressed in net price increments that are not multiples of the minimum increment are not entitled to the same priority under subparagraph (b)(ii) of this Section 27 as such orders expressed in increments that are multiples of the minimum increment.
- ii. Complex Order Priority. Notwithstanding the provisions of Section 16 of this Chapter V (Execution and Price/Time Priority), a complex order, as defined in paragraph (a) of this Section, may be executed at a total credit or debit price with one other Participant without giving priority to bids or offers established in the marketplace that are no better than the bids or offers comprising such total credit or debit provided; however, that if any of the bids or offers established in the marketplace consist of a Customer limit order, the price of at least one leg of the complex order must trade at a price that is better than the corresponding bid or offer in the marketplace. Under the circumstances described above, the option leg of a stock-option order, as defined in subparagraph (a)(5)(i) of this Section, has priority over bids and offers established in the marketplace by orders and Market Maker quotes that are no better than the price of the options leg. The option legs of a stock-option order as defined in subparagraph (a)(5)(ii), consisting of a combination order with stock, may be executed in accordance with the first sentence of this subparagraph (b)(2ii).
- iii. Execution of Orders. Complex orders will be executed without consideration of any prices that might be available on other exchanges trading the same options contracts.

- iv. Types of Complex Orders. Complex orders may be entered as fill-or-kill or fill-and-kill orders, as defined in Section 14, or as all-or-none orders, which are resting limit orders to be executed in their entirety or not at all.

#### **Supplementary Material to Section 27**

.01 A bid or offer made as part of a stock-option order (as defined in (a)(v)(1) above) or a SSF-option order (as defined in (a)(v)(2) above) is made and accepted subject to the following conditions: (1) the order must disclose all legs of the order and must identify the security (which in the case of a single stock future requires sufficient identification to determine the market(s) on which the single stock future trades) and the price at which the non-option leg(s) of the order is to be filled; and (2) concurrent with the execution of the options leg of the order, the initiating member and each member that agrees to be a contra-party on the non-option leg(s) of the order must take steps immediately to transmit the non-option leg(s) to a non-Exchange market(s) for execution. Failure to observe these requirements will be considered conduct inconsistent with just and equitable principles of trade and a violation of Section 14 of Chapter II of the Rules of the Exchange.

A trade representing the execution of the options leg of a stock-option or SSF-option order may be cancelled at the request of any member that is a party to that trade only if market conditions in any of the non-Exchange market(s) prevent the execution of the non-option leg(s) at the price(s) agreed upon.

## CHAPTER VI. MARKET MAKERS

### Sec. 1 Market Maker Registration

Options Participants registered as Market Makers have certain rights and bear certain responsibilities beyond those of other Options Participants. All Market Makers are designated as specialists on BOX for all purposes under the Exchange Act or Rules thereunder. (See BSE Rules Chapter XV, “Specialists”, Section 1, “Registration”).

(a) To register as a Market Maker, a Participant must file an application in writing on such forms as BOXR may prescribe. BOXR reviews applications and considers an applicant’s market making ability and such other factors as BOXR deems appropriate in determining whether to approve an applicant’s registration as a Market Maker.

(b) The registration of any Participant as a Market Maker may be suspended or terminated by BOXR upon a determination that such Participant has failed to properly perform as a Market Maker.

(c) These Rules place no limit on the number of qualifying entities that may become Market Makers. However, based on system constraints, capacity restrictions or other factors relevant to protecting the [maintenance]integrity of [a fair and orderly market,]the BOX Trading Host the Board or its designee may [defer]limit access to the Trading Host, for a period to be determined in the Board’s discretion, [approval of qualifying applications for Market Maker status] pending any action required to address the issue of concern to the Board. To the extent that the Board places limitations on access to the Trading Host on any Participant(s), such limits shall be objectively determined and submitted to the Commission for approval pursuant to a rule change filing under Section 19(b) of the Act.

### Sec. 2 Qualification Requirements for Market Maker Registration

To qualify for registration as a Market Maker, an Options Participant must meet the requirements established in SEC Rule 15c3-1(a)(6)(i), and the general requirements for Specialists as set forth in Chapter XV, Section 1 of the Rules of the Exchange (Specialist Registration).

### **Sec. 3 Good Standing for Market Makers**

- (a) To remain in good standing as a Market Maker, the Market Maker must:
- i. continue to be an Options Participant in good standing;
  - ii. continue to satisfy the Market Maker qualification requirements specified by BOXR, as amended from time to time by BOXR;
  - iii. comply with the Rules of the Exchange as well as the Rules of the OCC; and
  - iv. pay on a timely basis such Participation, transaction and other fees as the Exchange and BOX shall prescribe.

(b) The good standing of a Market Maker may be suspended, terminated or otherwise withdrawn, as provided in the Rules, if any of said conditions for approval cease to be maintained or the Market Maker violates any of its agreements with the Exchange or any of the provisions of the Rules.

(See BSE Rules Chapter XV, “Specialists”, Section 1, “Registration”).

### **Sec. 4 Appointment of Market Makers**

(a) Market Makers shall be those Options Participants registered as Market Makers and approved by the Board or a committee designated by the Board for an appointment in an options class listed on BOX. Such an appointment shall consist of at least one class and may include all classes listed on BOX.

(b) [In a manner to be determined from time to time by the Board or a committee designated by the Board, Market Makers shall make an application for appointment to one or more classes of options contracts traded on BOX. ]In approving such appointments the Board or designated committee shall consider (1) the financial and technical resources available to the Market Maker, (2) the Market Maker’s experience and expertise in market making or options trading, and (3) the maintenance and enhancement of competition among Market Makers in each class of options contracts to which they are appointed.

(c) The Board or designated committee may suspend or terminate any appointment of a Market Maker under this Rule and may make additional appointments or change the options classes included in a Market Maker’s appointment whenever, in the

Board's or designated committee's judgment, the interests of a fair and orderly market are best served by such action.

(d) BOXR shall periodically conduct an evaluation of Market Makers to determine whether they have fulfilled performance standards relating to, among other things, quality of markets, competition among Market Makers, observance of ethical standards, and administrative factors. BOXR may consider any relevant information, including but not limited to the results of a Market Maker evaluation questionnaire, trading data, a Market Maker's regulatory history and such other factors and data as may be pertinent in the circumstances. Failure by a Market Maker to meet minimum performance standards may result in, among other things:

- i. suspension, termination or restriction of an appointment to one or more of the options classes;
- ii. restriction of appointments to additional options classes; or
- iii. suspension, termination, or restriction of the Market Makers registration.

(e) Market Makers may transact business outside of their appointments, but ~~[such transactions in total shall be of no greater contract volume than that transacted within ]~~the total ~~[of all of their registered appointments. Should, in any given month, a Market Maker transact a greater ]~~number of contracts ~~[outside of its appointment than within, said]~~executed during a quarter by a Market Maker ~~[shall pay]~~in options classes to ~~[BOX a per contract surcharge, ]~~which ~~[shall be set by]~~it is not appointed may not exceed twenty-five percent (25%) of the [Board]total number of contracts traded by such Market Maker.

## **Sec. 5 Obligations of Market Makers**

(a) In registering as a Market Maker, an Options Participant commits himself to various obligations. Transactions of a Market Maker in its market making capacity must constitute a course of dealings reasonably calculated to contribute to the maintenance of a fair and orderly market, and Market Makers should not make bids or offers or enter into transactions that are inconsistent with such course of dealings. (See BSE Rules Chapter XV, "Specialists", Section 2, "Responsibilities"). Ordinarily, Market Makers are expected to:

- i. During trading hours, a Market Maker must maintain a continuous, two-sided market in those option classes in which the Market

Maker is registered to trade, in a manner that enhances the depth, liquidity and competitiveness of the market.

- ii. Participate in opening the market pursuant to Section 6(d) of this Chapter VI and Chapter V, Section 9(a) of these Rules.
- iii. Engage, to a reasonable degree under the existing circumstances, in dealings for their own accounts when there exists, or it is reasonably anticipated that there will exist, a lack of price continuity, a temporary disparity between the supply of (or demand for) a particular option contract, or a temporary distortion of the price relationships between option contracts of the same class.
- iv. Compete with other Market Makers in all series of options classes to which the Market Maker is registered to trade.
- v. Make markets that will be honored for the number of contracts entered into BOX's system in all series of options classes to which the Market Maker is registered to trade.
- vi. Update quotations in response to changed market conditions in all series of options classes to which the Market Maker is registered to trade.
- vii. Price options contracts fairly by, among other things, bidding and offering so as to create differences of no more than \$.25 between the bid and offer for each options contract for which the bid is less than \$2, no more than \$.40 where the bid is at least \$2 but does not exceed \$5, no more than \$.50 where the bid is more than \$5 but does not exceed \$10, no more than \$.80 where the bid is more than \$10 but does not exceed \$20, and no more than \$1.00 where the bid is \$20 or greater, provided that BOX may establish differences other than the above for one or more options series. The bid/offer differentials stated above shall not apply to in-the-money options series where the underlying securities market is wider than the differentials set forth above. For these series, the bid/ask differential may be as wide as the quotation on the primary market of the underlying security.
- viii. Maintain active markets in all classes in which the Market Maker is appointed for a period of at least six months.

(b) Market Makers may receive and handle [Customer]Directed Orders on an agency basis. Market Makers may trade as principal as contra party to

[Customer]Directed Orders submitted to BOX[ by such Market Maker]; however, Market Makers may only seek to act as contra party to [their own Customer]Directed Orders pursuant to the rules of the Price Improvement Period (Section 18 of Chapter V of these Rules)[. ], or pursuant to Paragraph (c) of this Section 5. As agent handling [Customer]Directed [orders]Orders, the Market Maker is required to:

- i. hold the interests of orders entrusted to him above his own interests and fulfill in a professional manner all other duties of an agent, including, but not limited to, ensuring that each such order, regardless of its size or source, receives proper representation and timely, best possible execution in accordance with the terms of the order and the rules and policies of the Exchange.
- ii. Ensure that his acceptance and execution of orders as agent are in compliance with applicable Federal and Exchange rules and policies.

(See BSE Rules Chapter XV, “Specialists”, Section 2, “Responsibilities”).

(c) When acting as agent for a Directed Order, a Market Maker must comply with subparagraphs (i) – (iii) of this Paragraph (c).

- i. A Market Maker that receives a Directed Order shall not, under any circumstances, reject the Directed Order.
- ii. Upon receipt of a Directed Order a Market Maker must either:
  - 1) Submit the Directed Order to the PIP process, pursuant to Chapter V, Section 18 of these Rules. Under this option, if the Market Maker is currently quoting at a price on the opposite side of the Directed Order equal to the NBBO, he is prohibited from adjusting his quotation prior to submitting the Directed Order to the PIP process.

-or-

- 2) Send the Directed Order to the BOX Book pursuant to subparagraph (c)(iii) below.
- i. When a Market Maker chooses not to enter the Directed Order into the PIP process, and therefore, must send the Directed Order to BOX for placement on the BOX Book, the following requirements shall apply:

- 1) If the Market Maker's quotation on the opposite side of the market from the Directed Order is not equal to the NBBO, then the Market Maker must send the Directed Order to BOX.
  - a. The Trading Host will determine if the Directed Order is executable against the NBBO.
    1. If the order is not executable against the NBBO, then the Trading Host will enter the Directed Order onto the BOX Book for processing consistent with all non-executable orders.
    2. If the Directed Order is executable against the NBBO, then the Trading Host will determine if there are any orders on the BOX Book equal to the NBBO.
      - i. If there are no orders on the BOX Book equal to the NBBO, then the Trading Host will filter the Directed Order against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules.
      - ii. If there are orders on the BOX Book equal to the NBBO, then the Trading Host will execute the Directed Order against those orders. Any remaining quantity will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.
- 2) If the Market Maker's quotation on the opposite side of the market from the Directed Order is equal to the NBBO, then the Market Maker will determine if the Directed Order is executable against the NBBO.

- a. If the order is not executable against the NBBO, then the Market Maker must send the Directed Order to BOX for placement on the BOX Book for processing consistent with all non-executable orders.
- b. If the order is executable against the NBBO, then the Market Maker shall guarantee execution of the Directed Order at the current NBBO for at least the size of his quote. This guarantee shall be called a Guaranteed Directed Order (“GDO”). The Market Maker must immediately send the Directed Order with the GDO to the Trading Host.
  1. The Market Maker who submitted the Directed Order and the GDO to the Trading Host:
    - i. Shall not submit to the BOX Book a contra order to the Directed Order for his proprietary account until the Directed Order is released to the BOX Book pursuant to subparagraph (c)(iii)(2)(b)(4) below.
    - ii. Shall not decrement the size or worsen the price of his GDO.
    - iii. May increase the size of his GDO.
    - iv. May improve the price of his GDO (only in five or ten cent minimum trading increments, as applicable pursuant to Chapter V, Section 6 of these Rules).
    - v. Upon receipt of a subsequent Directed Order, may either submit it to the PIP process or send it to the BOX Book pursuant to subparagraphs (c)(ii) and (iii).
  2. Upon receipt of the Directed Order, the Trading Host will execute the Directed

Order against any matching orders on the BOX Book, except the order of the Market Maker who submitted the Directed Order.

3. If there is any quantity remaining of the Directed Order, then BOX will send to all BOX Participants a Directed Order Broadcast (“DOB”) message indicating the side (buy/sell), remaining size, and guaranteed price of the Directed Order. For the following three seconds, any BOX Participant, except the Market Maker who submitted the Directed Order, may submit an order to the BOX Book in response to the DOB. Such a DOB response order will be treated as a BOX Limit Order.
4. During the three second period following the DOB, any order submitted to the BOX Book that matches an order already on the BOX Book will be executed. Three seconds after the DOB, the Trading Host will release the remaining quantity of the Directed Order to the BOX Book. At that time, the Trading Host will immediately execute any orders on the BOX Book against the Directed Order on a price-time priority basis. The GDO shall yield priority to all such competing orders at the same price. Any remaining quantity of the Directed Order will be filtered against trading through the NBBO according to the procedures set forth in Chapter V, Section 16(b) of these Rules and, if applicable, placed on the BOX Book.

(d) With respect to classes of options to which a Market Maker is not appointed, it should not engage in transactions for an account in which it has an interest that are disproportionate in relation to, or in derogation of, the performance of his obligations as specified in this Section 5 with respect to those classes of options to which it is appointed.

(e) Market Makers should not effect purchases or sales on BOX except in a reasonable and orderly manner.

(f) If BOXR finds any substantial or continued failure by a Market Maker to engage in a course of dealings as specified in paragraph (a) of this Section, such Market Maker will be subject to disciplinary action or suspension or revocation of registration by BOXR in one or more of the securities in which the Market Maker is registered. Nothing in this Section will limit any other power of the Board under these Rules, or procedures of BOXR with respect to the registration of a Market Maker or in respect of any violation by a Market Maker of the provisions of this Section 5.

(See BSE Rules Chapter XV, “Specialists”, Section 1, “Registration”).

## Sec. 6 Market Maker Quotations

(a) *Size Associated with Quotes.* A Market Maker’s bid and offer for a series of options contracts shall be accompanied by the number of contracts at that price the Market Maker is willing to buy from or sell to Customers. Unless BOXR has declared a fast market pursuant to Chapter V, Section 13 of these Rules (Unusual Market Conditions), every Market Maker bid or offer must have a size of at least ten (10) contracts.

(b) *Two-Sided Quotes.*

- i. A Market Maker that enters a bid (offer) in a class in which he is appointed on BOX must enter an offer (bid) within the spread allowable under Section 5 of this Chapter VI.
- ii. If a Market Maker is not already posting a two-sided quote in a series in a class in which he is appointed as Market Maker, he must post a valid two-sided quote within fifteen (15) seconds of receiving any RFQ message issued. The two-sided quote so posted must be retained by the Market Maker for at least thirty (30) seconds.
- iii. Every RFQ message issued, and every Market Maker responsive quote, must be for a minimum size of at least ten contracts, and must be within the legal width of the market, as applicable.

(c) *Firm Quotes.* (See BSE Rules Chapter II, “Dealings on the Exchange”, Section 7, “Dissemination of Quotations”).

- i. Market Maker bids and offers are firm for all orders under this Rule and Rule 11Ac1-1 under the Exchange Act (“Rule 11Ac1-1”)

for the number of contracts specified in the bid or offer and according to the requirements of paragraph (b) above.

- ii. Market Maker bids and offers are not firm under this Rule and Rule 11Ac1-1 if:
  - 1) a system malfunction or other circumstance impairs BOX's ability to disseminate or update market quotes in a timely and accurate manner;
  - 2) the level of trading activities or the existence of unusual market conditions is such that BOX is incapable of collecting, processing, and making available to quotation vendors the data for the option in a manner that accurately reflects the current state of the market on BOX, and as a result, the market in the option is declared to be "fast" pursuant to Chapter V, Section 13 of these Rules (Usual Market Conditions);
  - 3) during the pre-open phase; or
  - 4) any of the circumstances provided in paragraph (c)(3) of Rule 11Ac1-1 exist. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 7, "Dissemination of Quotations").
- iii. *Thirty Seconds Rule.* Within thirty seconds of receipt of a Customer Order to buy or sell an option in an amount greater than its published quotation size, a Market Maker will execute the entire order or that portion of the order equal to its published quotation size and the bid or offer price will be revised.

(d) *Continuous Quotes.* A Market Maker must enter continuous quotations for the options classes to which it is appointed, as follows:

- i. On a daily basis, Market Makers must participate in the pre-opening phase and thereafter make markets consistent with the applicable quoting requirements specified in these rules, on a continuous basis in at least eighty percent (80%) of the options series, for at least ninety percent (90%) of the classes to which the Market Maker is appointed.
- ii. A Market Maker may be called upon by an Options Official to submit a single quote or maintain continuous quotes in one or more

of the series of an options class to which the Market Maker is appointed whenever, in the judgment of such official, it is necessary to do so in the interest of fair and orderly markets.

(e) *Options Classes Other Than Those to Which Appointed.* A Market Maker may enter all order types permitted to be entered by Customers under the Rules to buy or sell options in classes of options listed on BOX to which the Market Maker is not appointed under Section 4 of this Chapter VI, provided that:

- i. Market Maker orders are subject to the limitations contained in Chapter V, Section 17 of these Rules (Customer Orders and Order Flow Providers) as those paragraphs apply to principal orders entered by Options Participants.
- ii. The Market Maker does not enter orders in options classes to which an affiliated Options Participant is otherwise appointed as a Market Maker.
- iii. Executions are subject to the limits provided in Section 4(e) of this Chapter VI.

(f) *Exemptive Authority.* Until [~~the earlier of (1) one year~~ six months] from the date on which BOX commences operations [~~or (2) the date on which BOX opens all listed options classes for trading~~], the Board may grant Market Makers exemptions from the requirements of paragraph (e)(iii) of this rule, subject to the following:

- [i. ]i. Any exemption would be conditioned on the Participant performing Market Maker functions in the classes it trades;
- [ii. ]ii. An exemption could be revoked by BOXR at any time if the Market Maker is not acting in accordance with the terms of the exemption; and
- [iii. ]iii. No exemption would have a term of more than one month, but would be renewable on a monthly basis until all listed options classes were open for trading.

(g) Nothing in these Rules shall be construed to prevent Options Participants that are not Market Makers from entering orders on different sides of the market in the same options series or class.

## **Sec. 7 Securities Accounts and Orders of Market Makers**

(a) *Identification of Accounts.* In a manner prescribed by BOXR, each Market Maker shall file with BOXR and keep current a list identifying all accounts for stock, options and related securities trading in which the Market Maker may, directly or indirectly, engage in trading activities or over which it exercises investment discretion. No Market Maker shall engage in stock, options or related securities trading in an account which has not been reported pursuant to this Section. (See BSE Rules Chapter XV, “Specialists”, Sections 1 and 2, generally).

(b) *Reports of Orders.* Each Market Maker shall, upon the request of BOXR and in the prescribed form, report to BOXR every order entered by the Market Maker for the purchase or sale of (i) a security underlying options traded on BOX, or (ii) a security convertible into or exchangeable for such underlying security, as well as opening and closing positions in all such securities held in each account reported pursuant to paragraph (a) of this Section. The report pertaining to orders must include the terms of each order, identification of the brokerage firms through which the orders were entered, the times of entry or cancellation, the times report of execution were received and, if all or part of the order was executed, the quantity and execution price.

(c) *Joint Accounts.* No Market Maker shall, directly or indirectly, hold any interest or participate in any joint account for buying or selling any options contract unless each participant in such joint account is an Options Participant and unless such account is reported to, and not disapproved by, BOXR. Such reports in a form prescribed by BOXR shall be filed with BOXR before any transaction is effected on BOXR for such joint account. A participant in a joint account must:

- i. Be either a Market Maker or a Clearing Participant that carries the joint account.
- ii. File and keep current a completed application on such form as is prescribed by BOXR.
- iii. Be jointly and severally responsible for assuring that the account complies with all the Rules of the Exchange.
- iv. Not be a Market Maker appointed to the same options classes to which the joint account holder is also appointed as a Market Maker.

(See BSE Rules Chapter XV, “Specialists”, Section 7, “Joint Accounts”).

## **Sec. 8 Letters of Guarantee**

(a) *Required of Each Market Maker.* No Market Maker shall make any transactions on BOX unless a Letter of Guarantee has been issued for such Participant by a Clearing Participant and filed with BOXR, and unless such Letter of Guarantee has not been revoked pursuant to paragraph (c) of this Section.

(b) *Terms of Letter of Guarantee.* A Letter of Guarantee shall provide that the issuing Clearing Participant accepts financial responsibilities for all BOX Transactions made by the guaranteed Participant.

(c) *Revocation of Letter of Guarantee.* A Letter of Guarantee filed with BOXR shall remain in effect until a written notice of revocation has been filed with BOXR by the Guarantor Clearing Participant. A revocation shall in no way relieve a Clearing Participant of responsibility for transactions guaranteed prior to the effective date of such revocation.

## **Sec. 9 Financial Requirements for Market Makers**

(a) Pursuant to Chapter XXII, Section 2 of the Rules of the Exchange (Capital and Equity Requirements), each Market Maker shall maintain (i) net liquidating equity in its Market Maker account of not less than \$200,000, and in conformity with such guidelines as the Board may establish from time to time, and (ii) net capital sufficient to comply with the requirements of Exchange Act Rule 15c3-1. Each Market Maker which is a Clearing Participant shall also maintain net capital sufficient to comply with the requirements of the Clearing Corporation. This equity requirement, as well as all other provisions of the section (including capital maintenance requirements), applies to each Market Maker account, without regard to the number of Market Maker accounts per firm. The term “net liquidating equity” means the sum of positive cash balances and long securities positions less negative cash balances and short securities positions.

(b) Each Market Maker that makes an arrangement to finance his transactions as a Market Maker must identify in writing to BOXR the source of the financing and its terms. BOXR must be informed immediately of the intention of any party to terminate or change any such arrangement.

## **Sec. 10 Limitations on Dealings**

(a) *General Rule.* A Market Maker on BOX may engage in Other Business Activities, or it may be affiliated with a broker-dealer that engages in Other Business

Activities, only if there is [a Chinese Wall]an Information Barrier between the market making activities and the Other Business Activities. "Other Business Activities" means:

- i. conducting an investment banking or public securities business;
- ii. making markets in the stocks underlying the options in which it makes markets; or
- iii. functioning as an Order Flow Provider.

(See BSE Rules Chapter II, "Dealings on the Exchange", Section 36, "Specialist Member Organizations Affiliated with an Approved Person").

(b) [Chinese Wall] "Information Barrier". For the purposes of this Section, [a Chinese Wall is]an Information Barrieris an organizational structure in which:

- i. The market making functions are conducted in a physical location separate from the locations in which the Other Business Activities are conducted, in a manner that effectively impedes the free flow of communications between designated representatives of an Options Participant performing the function of a Market Maker and persons conducting the Other Business Activities. However, upon request and not on his own initiative, a designated representative of an Options Participant performing the function of a Market Maker may furnish to a person performing the function of an OFP or other persons at the same firm or an affiliated firm ("affiliated persons"), the same market or trading information, so long as the Market Maker also may make available such information to non-affiliated persons with whom the Market Maker may have the same type of business relationship. The designated representative of a Market Maker must provide such information to affiliated persons in the same manner that he would make such information available to a non-affiliated person.
- ii. There are procedures implemented to prevent the use of material non-public corporate or market information in the possession of persons on one side of the [wall]barrier from influencing the conduct of persons on the other side of the [wall]barrier. These procedures, at a minimum, must provide that:
  - 1) the designated representative of an Options Participant performing the function of a Market Maker does not take advantage of knowledge of pending transactions, order

flow information, corporate information or recommendations arising from the Other Business Activities; and

- 2) all information pertaining to the Market Maker's positions and trading activities is kept confidential and not made available to persons on the other side of the [[Chinese Wall](#)][Information Barrier](#), except as provided in Paragraph (b)(i) of this Section 10.

(c) Persons on one side of the [[wall](#)][barrier](#) may not exercise influence or control over persons on the other side of the [[wall](#)][barrier](#), provided that:

- i. the market making function and the Other Business Activities may be under common management as long as any general management oversight does not conflict with or compromise the Market Maker's responsibilities under the Rules of the Exchange; and
- ii. the same person or persons (the "Supervisor") may be responsible for the supervision of the market making and OFP functions of the same firm or affiliated firms in order to monitor the overall risk exposure of the firm or affiliated firms. While the Supervisor may establish general trading parameters with respect to both market making and other proprietary trading other than on an order-specific basis, the Supervisor may not:
  - 1) actually perform the function of either a Market Maker or OFP;
  - 2) provide to any person performing the function of an OFP any information relating to market making activity beyond the information that a designated representative of an Options Participant performing the function of a Market Maker may provide under subparagraph (b)(i), above; nor
  - 3) provide a designated representative of an Options Participant performing the function of Market Maker with specific information regarding the firm's pending transactions or order flow arising out of its OFP activities.

(See BSE Rules Chapter II, "Dealings on the Exchange", Section 36, "Specialist Member Organizations Affiliated with an Approved Person").

(d) *Documenting and Reporting of [Chinese Wall]Information Barrier Procedures.* An Options Participant implementing [a Chinese Wall]an Information Barrier pursuant to this Section shall submit to BOX a written statement setting forth:

- i. The manner in which it intends to satisfy the conditions in paragraph (b) of this Section, and the compliance and audit procedures it proposes to implement to ensure that the [Chinese Wall]Information Barrier is maintained;
- ii. The names and titles of the person or persons responsible for maintenance and surveillance of the procedures;
- iii. A commitment to provide BOXR with such information and reports as BOXR may request relating to its transactions;
- iv. A commitment to take appropriate remedial action against any person violating this Section or the Participant's internal compliance and audit procedures adopted pursuant to paragraph (c)(i) of this Section, and that it recognizes that BOXR may take appropriate remedial action, including (without limitation) reallocation of securities in which it serves as a Market Maker, in the event of such a violation;
- v. Whether the Participant or an affiliate intends to clear its proprietary trades and, if so, the procedures established to ensure that information with respect to such clearing activities will not be used to compromise the Participant's [Chinese Wall]Information Barrier, which procedures, at a minimum, must be the same as those used by the Participant or the affiliate to clear for unaffiliated third parties; and
- vi. That it recognizes that any trading by a person while in possession of material, non-public information received as a result of the breach of the internal controls required under this Section may be a violation of Rules 10b-5 and 14e-3 under the Exchange Act or one or more other provisions of the Exchange Act, the Rules thereunder or the Rules of the Exchange, and that BOXR intends to review carefully any such trading of which it becomes aware to determine whether a violation has occurred.

(See BSE Rules Chapter II, "Dealings on the Exchange", Section 36, "Specialist Member Organizations Affiliated with an Approved Person").

(e) *Exchange Approval of Information Barrier [*Chinese Wall* ]Procedures.* The written statement required by paragraph (c) of this Section must detail the internal controls that the Participant will implement to satisfy each of the conditions stated in that Rule, and the compliance and audit procedures proposed to implement and ensure that the controls are maintained. If BOXR determines that the organizational structure and the compliance and audit procedures proposed by the Participant are acceptable under this Section, BOXR shall so inform the Participant, in writing. Absent BOXR finding a Participant's [*Chinese Wall*]Information Barrier procedures acceptable, a Market Maker may not conduct Other Business Activities. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 36, "Specialist Member Organizations Affiliated with an Approved Person").

(f) *Clearing Arrangements.* Paragraph (c)(v) permits a Options Participant or an affiliate of the Options Participant to clear the Participant's Market Maker transactions if it establishes procedures to ensure that information with respect to such clearing activities will not be used to compromise the [*Chinese Wall*]Information Barrier. In this regard:

- i. The procedures must provide that any information pertaining to Market Maker securities positions and trading activities, and information derived from any clearing and margin financing arrangements, may be made available only to those employees (other than employees actually performing clearing and margin functions) specifically authorized under this Section to have access to such information or to other employees in senior management positions who are involved in exercising general managerial oversight with respect to the market making activity.
- ii. Any margin financing arrangements must be sufficiently flexible so as not to limit the ability of any Market Maker to meet market making or other obligations under the Exchange's and BOX Rules.

[(g) *Exception to Chinese Wall Requirement. A Market Maker shall be exempt from paragraph (a)(iii) of this Section to the extent the Market Maker complies with the following conditions:*]

- [i. such Participant functions as an Order Flow Provider solely in options classes, (1) which the Participant is not appointed as a Market Maker pursuant to Chapter VI, Section 4 of these Rules or (2) in which the Participant is prohibited from acting as a Market Maker pursuant to regulatory requirements; and ]

- [ii. the Participant enters orders as an Order Flow Provider only for (1) the proprietary account of the Participant or (2) the account of entities that are affiliated with the Participant.]

(g) ~~[(h) Notwithstanding the foregoing, ]~~Market Makers in compliance with Paragraphs (a)-(f) of this Section 10 may receive and handle ~~[Customer]~~Directed Orders on an agency basis pursuant to Section 5 of this Chapter VI.

### **Sec. 11 Short Sales in Nasdaq National Market Securities**

(a) NASD Rule 3350 (“NASD Short Sale Rule”) prohibits NASD members from effecting short sales of Nasdaq National Market securities under certain circumstances. The NASD Short Sale Rule contains an exception (the “Hedging Exception”) for short sales for the account of an options market maker provided the options market maker is registered with a “qualified options exchange” as a “qualified market maker” and the short sale is an “exempt hedge transaction” as defined in the NASD Short Sale Rule.

(b) For purposes of the NASD Short Sale Rule, a Market Maker on BOX is deemed to be a “qualified options market maker” for each options class to which such Market Maker has been appointed on BOX.

(c) If, in accordance with paragraph (d) of Section 4 of this Chapter VI, BOXR determines that a Market Maker has failed to meet minimum performance standards for any options class to which such Market Maker has been appointed on BOX, such Market Maker automatically loses its status as a “qualified options market maker” for purposes of the NASD Short Sale Rule until such Market Maker demonstrates to the satisfaction of BOXR that it meets the minimum performance standards.

(d) BOXR will surveil all Market Makers use of the Hedging Exception to determine whether they are in compliance with the NASD Short Sale Rule.

(e) BOXR may withdraw, suspend or modify a Market Maker's eligibility for the Hedging Exception, as the result of a disciplinary action. If BOXR determines that such withdrawal, suspension or modification is warranted in light of the substantial, willful, or continuing nature of the violation, then the NASD is authorized to withdraw, suspend or modify the designation of a qualified options market maker.

(f) Short sales of a security of a company involved in a publicly announced merger or acquisition by or for the account of a Market Maker will be deemed to be an “exempt hedge transaction” under the NASD Short Sale Rule if the short sale was made to hedge existing or prospective positions (based on communicated indications of interest) in options on a security of another company involved in the merger or

acquisition, where the options positions are or will be in a class of options to which the Market Maker is appointed under Chapter VI, Section 4 of these Rules, and were or will be established in the course of bona fide market making activity.

(See BSE Rules Chapter XXXV, “Trading in Nasdaq Securities, Section 28, “Short Sales”).

## **CHAPTER VII. EXERCISES AND DELIVERIES**

### **Sec. 1 Exercise of Options Contracts**

(a) Subject to the restrictions set forth in Chapter III, Section 9 of these Rules (Exercise Limits) and to such restrictions as may be imposed pursuant to Chapter III, Section 12 of these Rules (Other Restrictions on Options Transactions and Exercises) or pursuant to the Rules of the Clearing Corporation, an outstanding options contract may be exercised during the time period specified in the Rules of the Clearing Corporation by the tender to the Clearing Corporation of an exercise notice in accordance with the Rules of the Clearing Corporation. An exercise notice may be tendered to the Clearing Corporation only by the Clearing Participant in the account of which such options contract is carried with the Clearing Corporation.

(b) The exercise cutoff time for all non cash-settled options shall be 5:30 p.m. EST on the business day immediately prior to the expiration date. This is the latest time at which an exercise instruction for expiring non cash-settled options positions may be:

- i. prepared by a Clearing Participant for positions in its proprietary trading account;
- ii. submitted to a Clearing Participant by an Options Participant for positions in the Options Participant's account or error account;
- iii. accepted by an Options Participant from any customer for its positions in the customer's account.

(c) Notwithstanding the foregoing, Options Participants may receive and Options Participants may submit exercise instructions after the exercise cutoff time but prior to expiration in the circumstances listed below. A memorandum setting forth the circumstance giving rise to instructions after the exercise cutoff time shall be maintained by the Participant and a copy thereof shall be promptly filed with BOXR. An exercise instruction after the exercise cutoff may be received or submitted:

- i. in order to remedy mistakes or errors made in good faith;
- ii. where exceptional circumstances relating to a customer's or person's ability to communicate exercise instructions to the Participant (or the Participant's ability to receive exercise instructions) prior to such cutoff time warrant such action.

(d) Submitting or preparing an exercise instruction after the exercise cutoff time in any expiring options on the basis of material information released after the cutoff time is activity inconsistent with just and equitable principles of trade.

(e) For purposes of this Chapter VII with respect to any Options Participant, the word “customer” shall mean every person or organization other than a Market Maker, broker or the Participant itself. The term “exercise instruction,” with respect to a Market Maker, broker and Clearing Participant, shall also mean a notice either not to exercise an options position which would otherwise be exercised, or to exercise an options position which would otherwise not be exercised, by operation of the Rules of the Clearing Corporation, or to modify or withdraw a previously submitted instruction. All exercise instructions must be time stamped at the time they are prepared.

(f) No Options Participant may prepare, time stamp or submit an exercise instruction prior to the purchase of the exercised contracts if the Options Participant knew or had reason to know that the contracts had not yet been purchased.

(g) Clearing Participants must follow the procedures of the Clearing Corporation when exercising expiring non cash-settled equity options contracts. Options Participants also must follow the procedures set forth below with respect to the exercise of non cash-settled equity options contracts which would otherwise not be exercised, or the non exercise of contracts which otherwise would be exercised, by operation of Clearing Corporation Rule 804:

- i. For all contracts so exercised or not exercised, a “contrary exercise advice,” must be delivered by the Market Maker, broker or clearing firm, as applicable, in such form or manner prescribed by BOXR no later than 5:30 p.m. EST.
- ii. Subsequent to the delivery of a “contrary exercise advice,” should the Market Maker, broker, customer or firm determine to act other than as reflected on the original advice form, the Market Maker, broker, or clearing firm, as applicable, must also deliver an “advice cancel,” in such form or manner prescribed by BOXR no later than 5:30 p.m. EST.
- iii. Options Participants shall properly communicate to BOX final exercise decisions in respect of positions for which they are responsible.
- iv. The preparation, time stamping or submission of a “contrary exercise advise” prior to the purchase of the contracts to be exercised or not exercised shall be deemed a violation of this Section.

- v. All of the above procedures of this paragraph (g) are in full force and effect whether or not the Clearing Corporation waives the exercise by exception provisions of its Rule 804; in the event of such waiver the procedures of this paragraph shall be followed as if such provisions of Clearing Corporation Rule 804 were in full force and effect. The Clearing Corporation rules may require the submission of an affirmative exercise notice even in circumstances where a contrary exercise advise is not submitted.
- vi. The failure of any Options Participant to follow the procedures in this paragraph (g) may result in the assessment of a fine, which may include but is not limited to disgorgement of potential economic gain obtained or loss avoided by the subject exercise, as determined by BOXR.

## **Sec. 2 Allocation of Exercise Notices**

(a) Each Options Participant shall establish fixed procedures for the allocation of exercise notices assigned in respect of a short position in such Options Participant's customers' accounts. The allocation shall be on a “first in, first out,” or automated random selection basis that has been approved by BOXR, or on a manual random selection basis that has been specified by BOXR. Each Options Participant shall inform its customers in writing of the method it uses to allocate exercise notices to its customers' account, explaining its manner of operation and the consequences of that system.

(b) Each Options Participant shall report its proposed method of allocation to BOXR and obtain BOXR's prior approval thereof, and no Options Participant shall change its method of allocation unless the change has been reported to and approved by BOXR. The requirements of this paragraph shall not be applicable to allocation procedures submitted to and approved by another SRO having comparable standards pertaining to methods of allocation.

(c) Each Options Participant shall preserve for a three-year period sufficient work papers and other documentary materials relating to the allocation of exercise notices to establish the manner in which allocation of such exercise notices is in fact being accomplished.

### **Sec. 3 Delivery and Payment**

(a) Delivery of the underlying security upon the exercise of an options contract, and payment of the aggregate exercise price in respect thereof, shall be in accordance with the Rules of the Clearing Corporation.

(b) As promptly as possible after the exercise of an options contract by a customer, the Options Participant shall require the customer to make full cash payment of the aggregate exercise price in the case of a call options contract, or to deposit the underlying security in the case of a put options contract, or to make the required margin deposit in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, [the provisions of Chapter XIII of these Rules](#), and the applicable regulations of the Federal Reserve Board.

(c) As promptly as practicable after the assignment to a customer of an exercise notice the Options Participant shall require the customer to deposit the underlying security in the case of a call options contract if the underlying security is not carried in the customer's account, or to make full cash payment of the aggregate exercise price in the case of a put options contract, or in either case to deposit the required margin in respect thereof if the transaction is effected in a margin account, in accordance with the Rules of the Exchange, [the provisions of Chapter XIII of these Rules](#), and the applicable regulations of the Federal Reserve Board.

## **CHAPTER VIII. RECORDS, REPORTS AND AUDITS**

### **Sec. 1 Maintenance, Retention and Furnishing of Books, Records and Other Information**

(a) Each Options Participant shall make, keep current and preserve such books and records as BOXR may prescribe pursuant to the Rules of the Exchange and as may be prescribed by the Exchange Act and the rules and regulations thereunder.

(b) No Options Participant shall refuse to make available to BOXR such books, records or other information as may be called for under the Rules of the Exchange or as may be requested in connection with an investigation by BOXR.

(c) All Options Participants shall prepare and make available all books and records as required by the Rules of the Exchange in English and U.S. dollars.

(See Constitution Article XIV, "Expulsion and Suspension", Section 6, "Exchange Inquiries"; BSE Rules Chapter II, "Dealings on the Exchange", Section 15, "Record of Orders from Offices to Floor"; Chapter [VIII, "[Minimum Amount of Margin on Transactions Made During the Course of a Single Day](#)", generally; Chapter ]XV, "Specialists", Section 8, "Records", Chapter XXII, "Financial Reports and Requirements", generally; [Chapter XIII, "Margin Requirements," of these Rules](#)).

### **Sec. 2 Reports of Uncovered Short Positions**

(a) Upon request of BOXR, each Options Participant shall submit a report of the total uncovered short positions in each options contract of a class dealt in on BOX showing:

- i. positions carried by such Options Participant for its own account and
- ii. positions carried by such Options Participant for the accounts of Customers;
- iii. provided that the Options Participant shall not report positions carried for the accounts of other Options Participants where such other Options Participants report the positions themselves.

(b) Such report shall be submitted not later than the second business day following the date the request is made.

### **Sec. 3 Financial Reports and Audits**

Each Options Participant shall submit to BOXR answers to financial questionnaires, reports of income and expenses and additional financial information in the type, form, manner and time prescribed by the Exchange or BOXR under Chapter XXII of the Rules of the Exchange.

### **Sec. 4 Automated Submission of Trade Data**

(a) An Options Participant shall submit requested trade data elements, in such automated format as may be prescribed by BOXR from time to time, in regard to a transaction(s) that is the subject of the particular request for information.

(b) If the transaction was a proprietary transaction effected or caused to be effected by the Options Participant for any account in which such Participant, or any person associated with the Options Participant, is directly or indirectly interested, the Participant shall submit or cause to be submitted, any or all of the following information as requested by BOXR:

- i. Clearing house number or alpha symbol as used by the Options Participant submitting the data;
- ii. Clearing house number(s) or alpha symbol(s) as may be used from time to time, of the Options Participant(s) on the opposite side of the transaction;
- iii. Identifying symbol assigned to the security and where applicable for the options month and series symbols;
- iv. Date transaction was executed;
- v. Number of option contracts for each specific transaction and whether each transaction was an opening or closing purchase or sale, as well as:
  - 1) the number of shares traded or held by accounts for which options data is submitted;
  - 2) where applicable, the number of shares for each specific transaction and whether each transaction was a purchase, sale or short sale;
- vi. Transaction price;

- vii. Account number; and
- viii. Market center where transaction was executed.

(c) If the transaction was effected or caused to be effected by the Options Participant for any Customer, such Options Participant shall submit or cause to be submitted any or all the following information as requested by BOXR:

- i. Data elements (i) through (viii) of paragraph (b) above;
- ii. If the transaction was effected for a Public Customer, customer name, address(es), branch office number, representative number, whether the order was discretionary, solicited or unsolicited, date the account was opened and employer name and tax identification number(s); and
- iii. If the transaction was effected for a Participant broker-dealer customer, whether the broker-dealer was acting as a principal or agent on the transaction or transactions that are the subject of BOXR's request.

(d) In addition to the above trade data elements, an Options Participant shall submit such other information in such automated format as may be prescribed by BOXR, as may from time to time be required.

(e) BOXR may grant exceptions, in such cases and for such time periods as it deems appropriate, from the requirement that the data elements prescribed in paragraphs (b) and (c) above be submitted to BOXR in an automated format.

## **Sec. 5 Regulatory Cooperation**

(a) BOXR may enter into agreements that provide for the exchange of information and other forms of mutual assistance for market surveillance, investigative, enforcement and other regulatory purposes, with domestic and foreign self-regulatory organizations, as well as associations and contract markets and the regulators of such markets.

(b) No Options Participant, partner, officer, director or other person associated with a Participant or other person or entity subject to the jurisdiction of the Exchange or BOXR shall refuse to appear and testify before another exchange or self-regulatory organization in connection with a regulatory investigation, examination or disciplinary proceeding or refuse to furnish documentary materials or other information or otherwise impede or delay such investigation, examination or disciplinary proceeding if the

Exchange or BOXR requests such information or testimony in connection with an inquiry resulting from an agreement entered into by the Exchange or BOXR pursuant to paragraph (a) of this Section, including but not limited to Participants and affiliates of the Intermarket Surveillance Group. The requirements of this paragraph (b) shall apply regardless whether the Exchange or BOXR has itself initiated a form investigation or disciplinary proceeding. (See BSE Rules Chapter XXX, "Disciplining of Members – Denial of Membership", generally).

(c) Whenever information is requested by BOXR pursuant to this Section, the Options Participant or person associated with a Participant from whom the information is requested shall have the same rights and procedural protections in responding to such request as such Participant or person would have in the case of any other request for information initiated by BOXR pursuant to BOXR's investigative powers. (See BSE Rules Chapter XXX, "Disciplining of Members – Denial of Membership", generally).

## **Sec. 6 Risk Analysis of Market Maker Accounts**

(a) Each Clearing Participant that clears or guarantees the transactions of Market Makers pursuant to Chapter VI, Section 8 of these Rules (Letters of Guarantee), shall establish and maintain written procedures for assessing and monitoring the potential risks to the Participant's capital over a specified range of possible market movements of positions maintained in such Market Maker accounts and such related accounts as BOXR shall from time to time direct.

- i. Current procedures shall be filed and maintained with BOXR.
- ii. The procedures shall specify the computations to be made, the frequency of computations, the records to be reviewed and maintained and the position(s) within the organization responsible for the risk management.

(b) Each affected Participant shall at a minimum assess and monitor its potential risk of loss from options Market Maker accounts each business day as of the close of business the prior day through use of a BOXR-approved computerized risk analysis program, which shall comply with at least the minimum standards specified below and such other standards as from time to time may be prescribed by BOXR:

- i. The estimated loss to the Clearing Participant for each Market Maker account (potential account deficit) shall be determined given the impact of broad market movements in reasonable intervals over a range from negative fifteen percent (15%) to positive fifteen percent (15%).

- ii. The Participant shall calculate volatility using a method approved by BOXR, with volatility updated at least weekly. The program must have the capability of expanding volatility when projecting losses throughout the range of broad market movements.
- iii. Options prices shall be estimated through use of recognized options pricing models such as, but not limited to, Black-Scholes and Cox-Reubenstein.
- iv. At a minimum, written reports shall be generated which describe for each market scenario:
  - 1) projected loss per options class by account;
  - 2) projected total loss per options class for all accounts; and
  - 3) projected deficits per account and in aggregate.

[(c) ] Upon direction by BOXR, each affected Participant shall provide to BOXR such information as it may reasonably require with respect to the Participant's risk analysis for any or all of its Market Maker accounts.

### **Sec. 7 Anti-Money Laundering Compliance Program**

Each Participant shall develop and implement a written anti-money laundering program reasonably designed to achieve and monitor compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury. Each Participant's anti-money laundering program must be approved, in writing, by a member of senior management of the Participant.

The anti-money laundering programs required by this Section shall, at a minimum:

- (1) Establish and implement policies and procedures that can be reasonably expected to detect and cause the reporting of transactions required under 31 U.S.C. 5318(g) and the implementing regulations thereunder;
- (2) Establish and implement policies and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and the implementing regulations thereunder;
- (3) Provide for independent testing for compliance to be conducted by Participant personnel or by a qualified outside party;

- (4) Designate a person or persons responsible for implementing and monitoring the day-to-day operations and internal controls of the program; and
- (5) Provide ongoing training for appropriate persons.

## **CHAPTER IX. SUMMARY SUSPENSION**

### **Sec. 1 Imposition of Suspension**

(a) An Options Participant or person associated with an Options Participant that has been expelled or suspended from any SRO or barred or suspended from being associated with a Participant of any SRO, or an Options Participant that is in such financial or operating difficulty that BOXR determines that the Options Participant cannot be permitted to continue to do business as a Participant with safety to investors, creditors, other Options Participants, or BOX, may be summarily suspended. (See Constitution Article XIV, “Expulsion and Suspension”, generally).

(b) BOXR may limit or prohibit any person with respect to access to services offered by BOX if any of the criteria of the foregoing sentence is applicable to such person or, in the case of a person who is an Options Participant, if the Exchange determines that such person does not meet the qualification requirements or other prerequisites for such access with safety to investors, creditors, Options Participants or the Exchange. (See Constitution Article XIV, “Expulsion and Suspension”, generally).

(c) In the event a determination is made to take summary action pursuant to this Section, notice thereof will be sent to the SEC. (See Constitution Article XIV, “Expulsion and Suspension”, Section 8, “Announcement of Expulsion or Suspension and its Effect”).

(d) Any person aggrieved by any summary action taken under this Section shall be promptly afforded an opportunity for a hearing by BOXR in accordance with the provisions of Chapter XXX of the Rules of the Exchange (Disciplining of Members– Denial of Membership).

(e) A summary suspension or other action taken pursuant to this Chapter IX shall not be deemed to be disciplinary action under Chapter XXX of the Rules of the Exchange (Disciplining of Members– Denial of Membership). The provisions of such Chapter XXX shall be applicable regardless of any action taken pursuant to this Chapter IX.

### **Sec. 2 Investigation Following Suspension**

(a) Every Options Participant or person associated with a Participant against which action has been taken in accordance with the Summary Suspension procedures of these Rules shall immediately afford every facility required by BOXR for the

investigation of his or its affairs and shall forthwith file with the Secretary a written statement covering all information requested, including a complete list of creditors and the amount owing to each and a complete list of each open long and short position in BOX options contracts maintained by the Options Participant and each of his or its Customers.

(b) Paragraph (a) includes, without limitation, the furnishing of such books and records of the Options Participant or person associated with an Options Participant and the giving of such sworn testimony as may be requested by BOXR.

(See Constitution Article XIV, "Expulsion and Suspension", generally).

### **Sec. 3 Reinstatement**

(a) *General.*

- i. An Options Participant, person associated with an Options Participant or other person suspended or limited or prohibited with respect to access to services offered by BOX under the Summary Suspension procedures of these Rules may apply for reinstatement within the time period set forth below.
- ii. Notice of an application for reinstatement shall be given to the Secretary by the Participant and shall be posted by BOXR at least five (5) business days prior to the consideration by BOXR of said application.
- iii. BOXR may approve an application for reinstatement if it finds that the applicant is operationally and financially able to conduct his business with safety to investors, creditors, Participants, and BOX.

(b) *Suspension Due to Operating Difficulty.*

- i. An applicant that, by reason of operating difficulty, has been suspended or limited or prohibited with respect to BOX services, must file any application for reinstatement within six (6) months from the date of such action. Such application must include a statement of all actions taken by the applicant to remedy the operational difficulty in question.
- ii. If the applicant fails to receive reinstatement, or if the application is not acted upon ninety (90) days of its submission, the applicant

shall be afforded an opportunity for a hearing in accordance with the provisions of Chapter XXX of the Rules of the Exchange (Disciplining of Members – Denial of Membership).

(See Constitution Article XIV, “Expulsion and Suspension”, generally).

(c) *Suspension Due to Financial Difficulty.*

- i. An applicant who, by reason of financial difficulty, has been suspended or limited or prohibited with respect to BOX services, must file any application for reinstatement within thirty (30) days of such action.
- ii. Such application must include a list of all creditors of the applicant a statement of the amount originally owing and the nature of the settlement in each case, and such other information as may be requested by BOXR.
- iii. The Participant status of an Options Participant summarily suspended by reason of financial difficulty may not be disposed of by BOXR until that Participant has been afforded an opportunity for a hearing respecting such summary suspension pursuant to the provisions of Chapter XXX of the Rules of the Exchange (Disciplining of Members – Denial of Membership).

(See Constitution Article XIII, “Insolvent Members”, generally).

#### **Sec. 4 Failure to Obtain Reinstatement**

If an Options Participant suspended under the provisions of this Chapter IX fails or is unable to apply for reinstatement in accordance with Section 3 of this Chapter IX or fails to obtain reinstatement as therein provided, his or its Participant status shall be disposed of by BOXR in accordance with Chapter XXX of the Rules of the Exchange (Disciplining of Members – Denial of Membership). (See Constitution Article XIII, “Insolvent Members”, Section 5, “Failure to Apply for Reinstatement”).

#### **Sec. 5 Termination of Rights by Suspension**

An Options Participant suspended under the provisions of this Chapter IX shall be deprived during the term of his or its suspension of all rights and privileges of

Participation. (See Constitution Articles XIII, “Insolvent Members” and XIV, “Expulsion and Suspension”, generally).

## CHAPTER X. MINOR RULE VIOLATIONS

### Sec. 1 General

The following BOX rule and policy violations may be determined by BOXR to be minor in nature. If so, BOXR may, with respect to any such violation, proceed under Chapter XXXIV (Minor Rule Violations) and Chapter XVIII, Section 4 (Imposition of Fines for Minor Violation(s) of Rules and Floor Decorum Policies) of the Rules of the Exchange and impose the fine set forth below. BOXR is not required to proceed under said Sections as to any rule violation and may, whenever such action is deemed appropriate, commence a disciplinary proceeding under Chapter XXX of the Rules of the Exchange as to any such violation. A subsequent violation is calculated on the basis of a rolling 24-month period (“Period”).

### Sec. 2 Penalty for Rule Violations

(a) *Position Limit Violations.* Violations of Chapter 3, Section 7 of these Rules ( Position Limit) that continue over consecutive business days will be subject to a separate fine, pursuant to this paragraph (a), for each day during which the violation occurs and is continuing.

- i. *Customer Accounts.* For purposes of this subparagraph (i) only, all accounts of non-Options Participant broker-dealers will be treated as customer accounts. In calculating fine thresholds under this subparagraph (i) for each Options Participant, all violations occurring within [a single calendar year]the Period in all of that Participant’s customer accounts are to be added together. For violations of Chapter 3, Section 7 of these Rules occurring in customer accounts, the Participant shall be subject to fines as follows, with a minimum fine amount of \$100:

Number of Cumulative Violations Within One [ <b>Calendar Year</b> ] <u>Period</u>	Fine Amount
1 to 6 (up to 5% in excess of applicable limit)	Letter of Caution
1 to 6 (above 5% in excess of applicable limit)	\$1 per contract
7 to 12	\$1 per contract over limit

13 or more \$5 per contract over limit

- ii. *Options Participant Accounts.* For violations occurring in an Options Participant's account (i.e., proprietary accounts and accounts of other Options Participants), the Options Participant whose account exceeded the limits shall be subject to fines as follows, with a minimum fine amount of \$100. In calculating fine thresholds under this paragraph (ii) for each Options Participant, all violations occurring within [\[a single calendar year\]](#)[the Period](#) in all of that Participant's accounts, (i.e., proprietary accounts and accounts of other Options Participants) are to be added together:

Number of Cumulative Violations Within One <a href="#">[Calendar Year]</a> <a href="#">]Period</a>	Fine Amount
1 to 3 (up to 5% in excess of applicable limit)	Letter of Caution
1 to 3 (above 5% in excess of applicable limit)	\$1 per contract
4 to 6	\$1 per contract over limit
7 or more	\$5 per contract over limit

(b) *Order Entry.* Violations of Chapter V, Section [\[18\]17](#) of these Rules ([Customer Orders and](#) Order Flow Providers) regarding limitations on orders entered into the System by OFP Participants, as well as violations of Chapter VI, Section [6\(a\) – \(c\)](#) of these Rules, (Market Maker Quotations) regarding restrictions on orders entered by Market Makers, will be subject to the fines listed below. Each paragraph of such sections subject to this Rule shall be treated separately for purposes of determining the number of cumulative violations.

Number of Violations Within One <a href="#">[Calendar Year]</a> <a href="#">]Period</a>	Fine Amount
1 to 5	Letter of Caution
6 to 10	\$500
11 to 15	\$1000
16 to 20	\$2000

(c) *Quotation Parameters.* Violations of Chapter VI, Section 5(a)(vii) of these Rules regarding spread parameters for Market Maker quotations shall be subject to the

finest listed below. For purposes of this Section, the spread parameters in Chapter VI, Section 5(a)([vi](#))[vii](#)) of these Rules will not be violated upon a change in a bid (offer) if a Market Maker takes immediate action to adjust its offer (bid) to comply with the maximum allowable spread. Except in unusual market conditions, immediate shall mean within five (5) seconds of a change in the Market Makers bid or offer.

Number of Violations Within One <a href="#">Calendar Year</a> <a href="#">Period</a>	Fine Amount
1 to 10	Letter of Caution
11 to 20	\$500
21 to 30	\$1000
31 to 40	\$2000

(d) *Continuous Quotes.* Violations of Chapter VI, Section 6(d) of these Rules regarding Market Maker continuous quotes shall be subject to the fines listed below. Violations of the rule that continue over consecutive trading days will be subject to a separate fine, pursuant to this paragraph (d), for each day during which the violation occurs and is continuing up to a limit of [ten](#)[fifteen](#) consecutive trading days. In calculating fine thresholds for each Market Maker, all violations occurring within [a single calendar year](#)[the Period](#) in any of that Market Makers appointed classes are to be added together.

Number of Cumulative Violations <a href="#">within one Calendar Year</a> <a href="#">Within One Period</a>	Fine Amount
1	Letter of Caution
2 or more	\$300 per day

(See also, BSE Rules Chapter XXXIV, "Minor Rule Violations", Section 2, "Rule Violations"; specifically Paragraphs (a)-(f), (i)-(l)).

## **CHAPTER XI. DOING BUSINESS WITH THE PUBLIC**

### **Sec. 1 Eligibility**

An [Options Participant]OFP may only transact business with Public Customers if such Participant also is a member of another registered national securities exchange or association with which the Exchange has entered into an agreement under Rule 17d-2 under the Exchange Act pursuant to which such other exchange or association shall be the designated examining authority for the [Options Participant]OFP. Eligibility to transact business with the public shall be based upon an [Options Participant]OFP's meeting the general requirements set forth in this Chapter and the net capital requirements set forth in Exchange Act Rule 15c3-1 (Net Capital Requirements). Such approval may be withdrawn if any such requirements cease to be met.

### **Sec. 2 Registration of Options Principals**

(a) No [Options Participant]OFP shall be approved to transact options business with the public until those associated persons who are designated as Options Principals have been approved by and registered with the Exchange. Persons engaged in the management and supervision of the [Options Participant]OFP's business pertaining to options contracts shall be designated as Options Principals and shall have responsibility for the overall oversight of the [Options Participant]OFP's options related activities on the Exchange.

(b) In connection with their registration, Options Principals shall file an application with the Secretary on a form prescribed by the Exchange, shall successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the options business, and shall sign an agreement to abide by the Rules of the Exchange and the Rules of the Clearing Corporation; provided, however, that Options Principals of Participants that are members of another national securities exchange or association that has standards of approval acceptable to the Exchange may be deemed to be approved by and registered with the Exchange, so long as such Options Principals are approved by and registered with such other exchange or association.

(c) Termination of employment or affiliation of any Options Principal in such capacity shall be reported promptly to the Exchange together with a copy of the Uniform Termination Notice for Securities Industry Registration ("Form U-5") filed with respect thereto and a statement of the reason for such termination. (See BSE Rules Chapter XX, "Employees for the Solicitation of Business", Section 5, "Notice of Termination").

### **Sec. 3 Registration of Representatives**

(a) No [Options Participant]OFP shall be approved to transact business with the public until those persons associated with it who are designated representatives have been approved by and registered with the Exchange. (See Constitution Article XVI, “Officers and Associates”, Section 7, “Alternates for Members Absent”, and BSE Rules Chapter I-B, “Business Hours”, Section 3, “Dealings on the Floor – Persons”).

(b) Persons who perform duties for the [Options Participant]OFP which are customarily performed by sales representatives or branch office managers shall be designated as representatives of the [Options Participant]OFP.

(c) In connection with their registration, designated representatives shall file an application on a form prescribed by the Exchange, shall successfully complete an examination prescribed by the Exchange for the purpose of demonstrating an adequate knowledge of the securities business and options transactions, and shall sign an agreement to abide by the Rules of the Exchange and the Rules of the Clearing Corporation; provided, however, that designated representatives of [Options Participants]OFPs who are Participants of another national securities exchange or association that has standards of approval comparable and acceptable to the Exchange may be deemed to be approved by and registered with the Exchange, so long as such designated representatives are approved by and registered with such other exchange or association. (See BSE Rules Chapter XX, “Employees for the Solicitation of Business”, generally).

### **Sec. 4 Termination of Registered Persons**

(a) The discharge or termination of employment of any registered person, together with the reasons therefor, shall be reported by an [Options Participant]OFP immediately following the date of termination, but in no event later than thirty (30) days following termination, to the Exchange on a Form U-5. A copy of said termination notice shall be provided concurrently to the person whose association has been terminated. (See BSE Rules Chapter XX, “Employees for the Solicitation of Business”, Section 5, “Notice of Termination”).

(b) The [Options Participant]OFP shall report to the Exchange, by means of an amendment to the Form U-5 filed pursuant to paragraph (a) above, in the event that the [Options Participant]OFP learns of facts or circumstances causing any information set forth in the Form U-5 to become inaccurate or incomplete. Such amendment shall be filed with the Exchange and provided concurrently to the person whose association has been terminated no later than thirty (30) days after the [Options Participant]OFP learns of the facts or circumstances giving rise to the amendment.

(c) Any filing or submission requirement under this Section shall be deemed to be satisfied if such filing or submission is made with the North American Securities Administrators Association/National Association of Securities Dealers, Inc. Central Registration Depository (“CRD”) within the prescribed time period.

## **Sec. 5 Continuing Education for Registered Persons**

(a) *Regulatory Element.* No [Options Participant]OFP shall permit any registered person to continue to, and no registered person shall continue to, perform duties as a registered person, unless such person has complied with the continuing education requirements of this paragraph (a). Each registered person shall complete the Regulatory Element of the continuing education program on the occurrence of their second registration anniversary date and every three (3) years thereafter or as otherwise prescribed by the Exchange. On each occasion, the Regulatory Element must be completed within one hundred twenty (120) days after the person's registration anniversary date. A person's initial registration date shall establish the cycle of anniversary dates for purposes of this Section 5. The content of the Regulatory Element of the program shall be determined by BOXR for each registration category of persons subject to the Rule.

- i. Persons who have been continuously registered for more than ten (10) years as of July 1, 1998, are exempt from the requirements of this Section 5 relative to participation in the Regulatory Element of the continuing education program, provided such persons have not been subject to any disciplinary action within the last ten (10) years as enumerated in subsection a(iii)(1)-(2) of this Section 5.
  - 1) However, persons delegated supervisory responsibility or authority pursuant to Section 10 of this Chapter XI (Supervision of Accounts) and registered in such supervisory capacity are exempt from participation in the Regulatory Element under this provision only if they have been continuously registered in a supervisory capacity for more than ten (10) years as of the effective date of this Section 5 and provided that such supervisory person has not been subject to any disciplinary action under subsection a(iii)(1)-(2) of this Section 5.
  - 2) In the event that a registered person who is exempt from participation in the Regulatory Element subsequently becomes the subject of a disciplinary action as enumerated

in subsection a(iii)(1)-(2) of this Section 5, such person shall be required to satisfy the requirements of the Regulatory Element as if the date the disciplinary action becomes final is the person's initial registration anniversary date.

- ii. *Failure to Complete.* Unless otherwise determined by BOXR, any registered persons who have not completed the Regulatory Element of the program within the prescribed time frames will have their registration deemed inactive until such time as the requirements of the program have been satisfied. Any person whose registration has been deemed inactive under this Section 5 shall cease all activities as a registered person and is prohibited from performing any duties and functioning in any capacity requiring registration. The Exchange may, upon application and a showing of good cause, allow for additional time for a registered person to satisfy the program requirements.
- iii. *Re-Entry Into Program.* Unless otherwise determined by BOXR, a registered person will be required to re-enter the Regulatory Element and satisfy all of its requirements in the event such person:
  - 1) becomes subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act,
  - 2) becomes subject to suspension or to the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities SRO, or as imposed by any such regulatory organization in connection with a disciplinary proceeding, or
  - 3) is ordered as a sanction in a disciplinary action to re-enter the continuing education program by any securities governmental agency or securities SRO.

Re-entry shall commence with initial participation within one hundred twenty (120) days of the registered person becoming subject to the statutory disqualification, in the case of a(iii)(1) above, or the disciplinary action becoming final, in the case of a(iii)(2) or a(iii)(3) above. The date that the disciplinary action

becomes final will be deemed the person's initial registration anniversary date for purposes of this Section 5.

(b) *Firm Element.*

- i. *Persons Subject to the Firm Element.* The requirements of paragraph (b) of this Section 5 shall apply to any registered person who has direct contact with Public Customers in the conduct of the [Options Participant]OFP's securities sales, trading or investment banking activities, and to the immediate supervisors of such persons (collectively "covered registered persons").
- ii. *Standards.*
  - 1) Each [Options Participant]OFP must maintain a continuing and current education program for its covered registered persons to enhance their securities knowledge, skills and professionalism. At a minimum each [Options Participant]OFP shall at least annually evaluate and prioritize its training needs and develop a written training plan. The plan must take into consideration the [Options Participant]OFP's size, organizational structure and scope of business activities, as well as regulatory development and the performance of covered registered persons in the Regulatory Element. If an [Options Participant]OFP's analysis determines a need for supervisory training for persons with supervisory responsibilities, such training must be included in the Participant's training plan.
  - 2) *Minimum Standards for Training Programs.* Programs used to implement an [Options Participant]OFP's training plan must be appropriate for the business of the [Options Participant]OFP and, at a minimum, must cover the following matters concerning securities products, services and strategies offered by the [Options Participant]OFP: (i) general investment features and associated risk factors; (ii) suitability and sales practice considerations; and (iii) applicable regulatory requirements.
  - 3) *Administration of Continuing Education Program.* Each [Options Participant]OFP must administer its continuing education program in accordance with its annual evaluation and written plan and must maintain records documenting

the content of the programs and completion of the programs by covered registered persons.

- iii. *Participation in the Firm Element.* Covered registered persons included in a Participant's plan must take all appropriate and reasonable steps to participate in continuing education programs as required by the Participant.

### **Supplementary Material to Section 5**

.01 For purposes of this Section 5, the term “registered person” means any [Options Participant]OFP, representative or other person registered or required to be registered under the Rules, but does not include any such person whose activities are limited solely to the transaction of business on BOX with Participants or registered broker-dealers.

.02 Any registered person who has terminated association with a registered broker or dealer and who has, within two (2) years of the date of termination, become reassociated in a registered capacity with a registered broker or dealer shall participate in the Regulatory Element of the continuing education program as such intervals that apply (second registration anniversary and every three years thereafter) based on the initial registration anniversary date, rather than based on the date of reassociation in a registered capacity. Any former registered person who becomes reassociated in a registered capacity with a registered broker or dealer more than two (2) years after termination as such will be required to satisfy the program's requirements in their entirety (second registration anniversary and every three years thereafter), based on the most recent registration date.

.03 A registration that is deemed inactive for a period of two (2) calendar years pursuant to paragraph (a)(ii) of this Section 5 for failure of a registered person to complete the Regulatory Element, shall be terminated. A person whose registration is so terminated may become registered only by reapplying for registration and satisfying applicable registration and qualification requirements of the Exchange's and BOX Rules. (See Constitution Article XIII, “Insolvent Members”, Section 3, “Procedure for Reinstatement”).

## **Sec. 6 Other Affiliations of Registered Persons**

Except with the express written permission of BOXR, every registered person shall devote his entire time during business hours to the business of the [Options Participant]OFP employing him, or to the business of its affiliates that are engaged in the transaction of business as a broker or dealer in securities or commodities or in such other

businesses as have been approved by the [Options Participant]OFP's designated examining authority.

## **Sec. 7 Discipline, Suspension, Expulsion of Registered Persons**

The Exchange or BOXR may discipline, suspend or terminate the registration of any registered person for violation of the Rules of the Exchange or the Rules of the Clearing Corporation. (See Constitution Article XIV, "Expulsion and Suspension", Sections 2 – 5, generally).

## **Sec. 8 Branch Offices**

(a) Every [Options Participant]OFP approved to do options business with the public under this Chapter shall file with BOXR and keep current a list of each of its branch offices showing the location of each such office and the name of the manager of each such office.

(b) No branch office of an [Options Participant]OFP shall transact options business with the public unless the manager of such branch office has been qualified as an Options Principal; provided, that this requirement shall not apply to branch offices in which not more than three (3) representatives are located so long as the [Options Participant]OFP can demonstrate to the satisfaction of BOXR that the options activities of such branch offices are appropriately supervised by an Options Principal.

## **Sec. 9 Opening of Accounts**

(a) *Approval Required.* No [Options Participant]OFP shall accept an order from a Public Customer to purchase or write an options contract unless the Public Customer's account has been approved for options transactions in accordance with the provisions of this Section. (See BSE Rules Chapter VII, "Carrying of Accounts", generally).

(b) *Diligence in Opening Account.* In approving a Public Customer's account for options transactions, an [Options Participant]OFP shall exercise due diligence to learn the essential facts as to the Public Customer and his investment objectives and financial situation, and shall make a record of such information, which shall be retained in accordance with SEC Rule 17a-4 under the Exchange Act. Based upon such information, the branch office manager or other Options Principal shall approve in writing the Public Customer's account for options transactions; provided, that if the branch office manager is not an Options Principal, his approval shall within a reasonable time be confirmed by

an Options Principal. (See BSE Rules Chapter VII, “Carrying of Accounts”, [Section]Chapter [2,]XIII, “[Improper ]Margin [Transactions Prohibited]Requirements”, [of these Rules](#)).

- i. In fulfilling its obligations under this paragraph (b) with respect to options Public Customers that are natural persons, an [Options Participant]OFP shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account):
  - 1) investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);
  - 2) employment status (name of employer, self-employed or retired);
  - 3) estimated annual income from all sources;
  - 4) estimated net worth (exclusive of primary residence);
  - 5) estimated liquid net worth (cash, securities, other);
  - 6) marital status;
  - 7) number of dependents;
  - 8) age; and
  - 9) investment experience and knowledge (e.g., number of years, size, frequency and type of transactions for options, stocks and bonds, commodities, other).

(See BSE Rules Chapter VII, “Carrying of Accounts”, Section 2, [“Improper]Chapter XIII, Margin [Transactions Prohibited”]Requirements, [of these Rules](#)).

- ii. In addition to the information required in subparagraph (b)(i) above, the Public Customer's account records shall contain the following information, if applicable:
  - 1) the source or sources of background and financial information (including estimates) concerning the Public Customer;
  - 2) discretionary trading authorization, including agreement on file, name, relationship to Public Customer and experience of person holding trading authority;

- 3) date(s) options disclosure document(s) furnished to Public Customer;
  - 4) nature and types of transactions for which account is approved (e.g., buying, covered writing, uncovered writing, spreading, discretionary transactions);
  - 5) name of representative;
  - 6) name of the Options Principal approving account;
  - 7) date of approval; and
  - 8) dates of verification of currency of account information.
- iii. Refusal of a Public Customer to provide any of the information called for in this paragraph (b) shall be so noted on the Public Customer's records at the time the account is opened. Information provided shall be considered together with other information available in determining whether and to what extent to approve the account for options transactions.

(c) *Verification of Public Customer Background and Financial Information.* The background and financial information upon which the account of every new Public Customer that is a natural person has been approved for options trading, including all of the information required in paragraph (b)(ii) of this Section, unless the information is included in the Public Customer's account agreement, shall be sent to the Public Customer for verification or correction within fifteen (15) days after the Public Customer's account has been approved for options transactions. A copy of the background and financial information on file with the [Options Participant]OFP shall also be sent to the Public Customer for verification within fifteen (15) days after the [Options Participant]OFP becomes aware of any material change in the Public Customer's financial situation. Absent advice from the Public Customer to the contrary, the information will be deemed to be verified.

(d) *Agreements to Be Obtained.* Within fifteen (15) days after a Public Customer's account has been approved for options transactions, an [Options Participant]OFP shall obtain from the Public Customer a written agreement that the account shall be handled in accordance with the Rules of the Exchange and the Rules of the Clearing Corporation and that such Public Customer, acting alone or in concert with others, will not violate the position or exercise limits set forth in Chapter III, Section 7 and 9 of these Rules.

(e) *Options Disclosure Documents to Be Furnished.* At or prior to the time a Public Customer's account is approved for options transactions, an [Options

**Participant**OFP shall furnish the Public Customer with one (1) or more current options disclosure documents issued by the OCC in accordance with the requirements of Section 17 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

(f) Every [**Options Participant**]OFP transacting business with the public in uncovered options contracts shall develop, implement and maintain specific written procedures governing the conduct of such business that shall at least include the following:

- i. specific criteria and standards to be used in evaluating the suitability of a Public Customer for uncovered short options transactions;
- ii. specific procedures for approval of accounts engaged in writing uncovered short options contracts (which for the purposes of this Section shall include combinations and any transactions that involve naked writing), including written approval of such accounts by an Options Principal;
- iii. designation of the Senior Options Principal and/or Compliance Options Principal as the person responsible for approving accounts that do not meet the specific criteria and standards for writing uncovered short options transactions and for maintaining written records of the reasons for every account so approved;
- iv. establishment of specific minimum net equity requirements for initial approval and maintenance of Public Customer uncovered options accounts; and
- v. requirements that Public Customers approved for writing uncovered short options transactions be provided with a special written description of the risks inherent in writing uncovered short options transactions, at or prior to the initial uncovered short options transaction pursuant to Section 17 of this Chapter XI (Delivery of Current Options Disclosure Documents and Prospectus).

## **Sec. 10 Supervision of Accounts**

(a) *Duty to Supervise-- Non-Participant Accounts.* Every [**Options Participant**]OFP shall develop and implement a written program for the review of the its

non-Participant Public Customer accounts and all orders in such accounts, insofar as such accounts and orders relate to options contracts. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 10, "Discretionary Transactions"; and Chapter VII, "Carrying of Accounts", generally).

(b) *Duty to Supervise-- Uncovered Short Options.* Every [Options Participant]OFP shall develop and implement specific written procedures concerning the manner of supervision of Public Customer accounts maintaining uncovered short (written) options positions (which for the purposes of this Section shall include combinations and any transactions that involve naked writing) and specifically providing for frequent supervisory review of such accounts.

(c) *Senior Options Principal.* Each [Options Participant]OFP shall designate a Senior Options Principal who is specifically identified to BOXR and who is an officer (in the case of a corporation) or general partner (in the case of a partnership) or manager (in the case of a limited liability company) of the [Options Participant]OFP to supervise compliance with paragraphs (a) and (b) of this Section. In meeting his responsibility for supervision of non-Participant Public Customers' accounts and orders, the Senior Options Principal may delegate to qualified employees responsibility and authority for supervision and control of each branch office handling options transactions, provided that the Senior Options Principal shall have overall authority and responsibility for establishing appropriate procedures of supervision and control over such employees.

(d) *Compliance Options Principal.* Every [Options Participant]OFP shall designate and specifically identify to BOXR a Compliance Options Principal (who may be the Senior Options Principal), who shall have no sales functions and shall be responsible to review, and to propose appropriate action to secure, the [Options Participant]OFP's compliance with securities laws and regulations, Exchange and BOX Rules with respect to its options business.

- i. The Compliance Options Principal shall regularly furnish reports directly to the compliance officer (if the Compliance Options Principal is not himself the compliance officer) and to other senior management of the [Options Participant]OFP.
- ii. The requirement that the Compliance Options Principal shall have no sales functions does not apply to an [Options Participant]OFP that has received less than \$1 million in gross commissions on options business as reflected in its Financial and Operational Combined Uniform Statement (or "FOCUS") reports for either of the preceding two (2) fiscal years or that currently has ten (10) or fewer representatives.

(e) *Maintenance of Public Customer Records.* Background and financial information of Public Customers who have been approved for options transactions shall be maintained at the principal supervisory office having jurisdiction over the office servicing a Public Customer's account, or shall have readily accessible and promptly retrievable, information to permit review of each Public Customer's options account on a timely basis to determine:

- i. the compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;
- ii. the size and frequency of options transactions;
- iii. commission activity in the account;
- iv. profit or loss in the account;
- v. undue concentration in any options class or classes; and
- vi. compliance with the provisions of Regulation T of the Federal Reserve Board.

(See BSE Rules Chapter VII, "Carrying of Accounts", generally).

## **Sec. 11 Suitability of Recommendations**

(a) Every [Options Participant]OFP, Options Principal or representative who recommends to a Public Customer the purchase or sale (writing) of any options contract shall have reasonable grounds for believing that the recommendation is not unsuitable for such Public Customer on the basis of the information furnished by such Public Customer after reasonable inquiry as to his investment objectives, financial situation and needs, and any other information known by such [Options Participant]OFP, Options Principal or representative. (See BSE Rules Chapter XXI, "Advertising and Market Letters", Sections 7 and 8, generally).

(b) No [Options Participant]OFP, Options Principal or representative shall recommend to a Public Customer an opening transaction in any options contract unless the person making the recommendation has a reasonable basis for believing at the time of making the recommendation that the Public Customer has such knowledge and experience in financial matters that he may reasonably be expected to be capable of evaluating the risks of the recommended transaction, and is financially able to bear the

risks of the recommended position in the options contract. (See BSE Rules Chapter XXI, “Advertising and Market Letters”, Sections 7 and 8, generally).

## **Sec. 12 Discretionary Accounts**

(a) *Authorization and Approval Required.* No [Options Participant]OFP shall exercise any discretionary power with respect to trading in options contracts in a Public Customer's account unless such Public Customer has given prior written authorization and the account has been accepted in writing by an Options Principal. (See BSE Rules Chapter II, “Dealings on the Exchange”, Section 10, “Discretionary Transactions”).

- i. The Senior Options Principal shall review the acceptance of each discretionary account to determine that the Options Principal accepting the account had a reasonable basis for believing that the Public Customer was able to understand and bear the risks of the strategies or transactions proposed, and the Senior Options Principal shall maintain a record of the basis for his determination.
- ii. Each discretionary order shall be approved and initialed on the day entered by the branch office manager or other Options Principal, provided that if the branch office manager is not an Options Principal, his approval shall be confirmed within a reasonable time by an Options Principal.
- iii. Every discretionary order shall be identified as discretionary on the order at the time of its entry into BOX market.
- iv. Discretionary accounts shall receive frequent appropriate supervisory review by the Compliance Options Principal.

(b) *Record of Transactions.* A record shall be made of every options transaction for an account with respect to which an [Options Participant]OFP is vested with any discretionary power, such record to include the name of the Public Customer, options class and series, number of contracts, premium, and date and time when such transaction took place. (See BSE Rules Chapter II, “Dealings on the Exchange”, Section 10, “Discretionary Transactions”).

(c) *Excessive Transactions Prohibited.* No [Options Participant]OFP shall effect with or for any Public Customer's account with respect to which such Participant is vested with any discretionary power any transactions of purchase or sale of options contracts that are excessive in size or frequency in view of the financial resources and

character of such account. (See BSE Rules Chapter II, "Dealings on the Exchange", Section 8, "Excessive Trading by Members").

(d) *Options Programs.* Where the discretionary account utilizes options programs involving the systematic use of one or more options strategies, the Public Customer shall be furnished with a written explanation of the nature and risks of such programs.

### **Sec. 13 Confirmation to Public Customers**

(a) Every [Options Participant]OEP shall promptly furnish to each Public Customer a written confirmation of each transaction in options contracts that shows the underlying security, type of options, expiration month, exercise price, number of options contracts, premium, commissions, date of transaction and settlement date, and shall indicate whether the transaction is a purchase or sale and whether a principal or agency transaction.

(b) The confirmation shall, by appropriate symbols, distinguish between BOX Transactions and other transactions in options contracts.

### **Sec. 14 Statement of Accounts to Public Customers**

(a) Every [Options Participant]OEP shall send to its Public Customers a statement of account showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement; provided, however, that such charges need not be specifically delineated on the statement if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

(b) With respect to options Public Customers having a general (margin) account, the Public Customer statement shall also provide the mark-to-market price and market value of each options position and other security position in the general (margin) account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity. For purposes of this paragraph (b), general (margin) account equity shall be computed by subtracting the total of the short security values and any debit balance from the total of the long security values and any credit balance.

(c) The Public Customer statement shall bear a legend stating that further information with respect to commissions and other charges related to the execution of listed options transactions has been included in confirmations of such transactions

previously furnished to the Public Customer, and that such information will be made available to the Public Customer promptly upon request.

(d) Public Customer statements shall bear a legend requesting that the Public Customer promptly advise the Participant of any material change in the Public Customer's investment objectives or financial situation.

(e) Public Customer statements shall be sent at least quarterly to all accounts having a money or a security position during the preceding quarter and at least monthly to all accounts having an entry during the preceding month.

### **Sec. 15 Statements of Financial Condition to Public Customers**

Every [Options Participant]OFP shall send to each of its Public Customers statements of the Participant's financial condition as required by SEC Rule 17a-5 under the Exchange Act.

### **Sec. 16 Addressing of Communications to Public Customers**

No [Options Participant]OFP shall address any communications to a Public Customer in care of any other person unless either: (1) the Public Customer, within the preceding twelve (12) months, has instructed the [Options Participant]OFP in writing to send communications in care of such other persons, or (2) duplicate copies are sent to the Public Customer at some other address designated in writing by him.

### **Sec. 17 Delivery of Current Options Disclosure Documents and Prospectus**

(a) *Options Disclosure Documents.* Every [Options Participant]OFP shall deliver a current options disclosure document issued by the OCC to each Public Customer at or prior to the time such Public Customer's account is approved for options transactions. Where a Public Customer is a broker or dealer, the [Options Participant]OFP shall take reasonable steps to assure that such broker or dealer is furnished reasonable quantities of current options disclosure documents, as requested by the broker or dealer, to enable it to comply with the requirements of this Section 17.

- i. The term “current options disclosure document” means, as to any category of underlying security, the most recent edition of such document that meets the requirements of Rule 9b-1 under the Exchange Act.

- ii. A copy of each amendment to an options disclosure document shall be furnished to each Public Customer who was previously furnished the options disclosure document to which the amendment pertains, not later than the time a confirmation of a transaction in the category of options to which the amendment pertains is delivered to such Public Customer. BOXR will advise [Options Participants]OFPs when an options disclosure document is amended.

(b) *Prospectus.* Every Participant shall furnish a copy of the current prospectus of the Clearing Corporation to each Public Customer who requests one. The term “current prospectus of Clearing Corporation” means the prospectus portion of the most recent Form S-20, which prospectus portion then meets the delivery requirements of Rule 153b under the Securities Act of 1933, as amended (the “Securities Act”).

(c) The written description of risks required by this Section 17 shall be in a format prescribed by the Exchange or in a format developed by the Participant, provided it contains substantially similar information as the prescribed Exchange format and has received prior written approval of the Exchange.

(d) Below is a sample risk description for use by [Options Participants]OFPs to satisfy the requirements of paragraph (c) of this Section 17:

Special Statement for Uncovered Options Writers.

There are special risks associated with uncovered options writing which expose the investor to potentially significant loss. Therefore, this type of strategy may not be suitable for all Public Customers approved for options transactions.

1. The potential loss of uncovered call writing is unlimited. The writer of an uncovered call is in an extremely risky position, and may incur large losses if the value of the underlying instrument increases above the exercise price.

2. As with writing uncovered calls, the risk of writing uncovered put options is substantial. The writer of an uncovered put option bears a risk of loss if the value of the underlying instrument declines below the exercise price. Such loss could be substantial if there is a significant decline in the value of the underlying instrument.

3. Uncovered options writing is thus suitable only for the knowledgeable investor who understands the risks, has the financial capacity and willingness to incur potentially substantial losses, and has sufficient liquid assets to meet applicable margin requirements. In this regard, if the value of the underlying instrument moves against an uncovered writer's options position, the investor's broker may request significant

additional margin payments. If an investor does not make such margin payments, the broker may liquidate stock or options positions in the investor's account with little or no prior notice in accordance with the investor's margin agreement.

4. For combination writing, where the investor writes both a put and a call on the same underlying instrument, the potential risk is unlimited.

5. If a secondary market in options were to become unavailable, investors could not engage in closing transactions, and an options writer would remain obligated until expiration or assignment.

6. The writer of an American-style option is subject to being assigned an exercise at any time after he has written the option until the option expires. By contrast, the writer of a European-style option is subject to exercise assignment only during the exercise period.

NOTE: It is expected that you will read the booklet entitled CHARACTERISTICS AND RISKS OF STANDARDIZED OPTIONS available from your broker. In particular, your attention is directed to the chapter entitled Risks of Buying and Writing Options. This statement is not intended to enumerate all of the risks entailed in writing uncovered options.

## **Sec. 18 Restrictions on Pledge and Lending of Public Customers' Securities**

(a) No [Options Participant]OFP shall lend, either to itself or to others, securities carried for the account of any Public Customer, unless such [Options Participant]OFP shall first have obtained a separate written authorization from such Public Customer permitting the lending of the securities. (See BSE Rules Chapter VII, "Carrying of Accounts", Section 3, "Improper Use of Customer Securities").

(b) Regardless of any agreement between an [Options Participant]OFP and a Public Customer authorizing the [Options Participant]OFP to lend or pledge such securities, no [Options Participant]OFP shall lend or pledge more of such securities than is fair and reasonable in view of the indebtedness of the Public Customer to such [Options Participant]OFP, except such lending as may be specifically authorized under paragraph (c) of this Section 18. (See BSE Rules Chapter VII, "Carrying of Accounts", Sections 3-5, generally).

(c) No [Options Participant]OFP shall lend securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be loaned in view of the indebtedness of the Public Customer, unless such [Options Participant]OFP first obtains from such Public Customer a separate written

authorization designating the particular securities to be loaned. (See BSE Rules Chapter VII, "Carrying of Accounts", Sections 3-5, generally).

(d) No [Options Participant]OFP shall hold securities carried for the account of any Public Customer that have been fully paid for, or that are in excess of the amount that may be pledged in view of the indebtedness of the Public Customer, unless such securities are segregated and identified by a method that clearly indicates the interest of such Public Customer in those securities. (See BSE Rules Chapter VII, "Carrying of Accounts", Sections 3-5, generally).

### **Sec. 19 Transactions of Certain Public Customers**

(a) No [Options Participant]OFP shall execute any transaction in securities or carry a position in any security in which:

- i. an officer or employee of the Exchange, BOXR, BOX or any national securities exchange that is a participant of the Clearing Corporation, or an officer or employee of a corporation in which the Exchange, or such other exchange owns the majority of the capital stock, is directly or indirectly interested, without the prior written consent of the Exchange; or
- ii. a partner, officer, director, principal shareholder or employee of another [Options Participant]OFP is directly or indirectly interested, without the consent of such other [Options Participant]OFP.

(b) Where the required consent has been granted, duplicate reports of the transaction and position shall promptly be sent to the Exchange or [Options Participant]OFP, as the case may be.

### **Sec. 20 Guarantees**

No [Options Participant]OFP shall guarantee a Public Customer against loss in his account or in any transaction effected with or for such Public Customer.

### **Sec. 21 Profit Sharing**

(a) No [Options Participant]OFP, person associated with an [Options Participant]OFP or Options Principal shall share directly or indirectly in the profits or

losses in any Public Customer's account, whether carried by such [Options Participant]OFP, or any other [Options Participant]OFP, without the prior written consent of the [Options Participant]OFP carrying the account.

(b) Where such consent is obtained, the [Options Participant]OFP, person associated with an [Options Participant]OFP or Options Principal shall share in the profits or losses in such account only in direct proportion to the financial contribution made to the account by such person.

## **Sec. 22 Assuming Losses**

No [Options Participant]OFP shall assume for its own account any position established for a Public Customer in a security traded on the Exchange after a loss to the Public Customer has been established or ascertained, unless the position was created by the [Options Participant]OFP's mistake or unless approval of BOXR has first been obtained.

## **Sec. 23 Transfer of Accounts**

(a) When a Public Customer whose securities account is carried by an [Options Participant]OFP (the "Carrying Participant") wants to transfer the entire account to another [Options Participant]OFP (the "Receiving Participant") and gives written notice of that fact to the Receiving Participant, both Participants must expedite and coordinate activities with respect to the transfer. For purposes of this Section 23, the term "securities account" shall be deemed to include any and all of the account's money market fund positions or the redemption value thereof.

(b) Upon receipt from the Public Customer of a signed broker-to-broker transfer instruction to receive such Public Customer's securities account, the Receiving Participant will immediately submit such instruction to the Carrying Participant. The Carrying Participant must, within five (5) business days following receipt of such instruction:

- i. validate and return the transfer instruction (with an attachment reflecting all positions and money balances as shown on its books) to the Receiving Participant, or
- ii. take exception to the transfer instruction for reasons other than securities positions or money balance discrepancies and advise the Receiving Participant of the exception taken.

(c) The Carrying Participant and the Receiving Participant must promptly resolve any exceptions taken to the transfer instruction.

(d) Within five (5) business days following the validation of a transfer instruction, the Carrying Participant must complete the transfer of the Public Customer's securities account to the Receiving Participant. The Carrying Participant and the Receiving Participant must establish fail to receive and fail to deliver contracts at then current market values upon their respective books of account against the long/short positions (including options) in the Public Customer's securities account that have not been physically delivered/received and the Receiving/Carrying Participant must debit/credit the related money account. The Public Customer's securities account shall thereupon be deemed transferred.

(e) Any fail contracts resulting from this account transfer procedure must be closed out within ten (10) business days after their establishment.

(f) Any discrepancies relating to positions or money balances that exist or occur after transfer of a Public Customer's securities account must be resolved promptly.

(g) When both the Carrying Participant and the Receiving Participant are participants in a clearing corporation having automated Public Customer securities account transfer capabilities, the account transfer procedure, including the establishing and closing out of fail contracts, must be accomplished in accordance with the provisions of this Section 23 and pursuant to the Rules of and through the clearing corporation.

(h) BOXR may exempt from the provisions of this Section 23, either unconditionally or on specified terms and conditions:

- i. any Participant or type of Participants, or
- ii. any type of account, security or financial instrument.

(i) Unless an exemption has been granted pursuant to paragraph (h) of this Section 23, BOXR may impose upon a Participant a fee of up to \$100 per securities account for each day such Participant fails to adhere to the time frames or procedures required by this Section 23.

(j) Transfer instructions and reports required by this Section 23 shall be in such form as may be prescribed by BOXR.

## Sec. 24 Communications with Public Customers

(a) *General Rule.* No [Options Participant]OFP or person associated with a Participant shall utilize any advertisement, educational material, sales literature or other communications to any Public Customer or Participant of the public concerning options that:

- i. contains any untrue statement or omission of a material fact or is otherwise false or misleading;
- ii. contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events that are unwarranted or that are not clearly labeled as forecasts;
- iii. contains hedge clauses or disclaimers that are not legible, that attempt to disclaim responsibility for the content of such literature or for opinions expressed therein, or that are otherwise inconsistent with such communication; or
- iv. would constitute a prospectus as that term is defined in the Securities Act, unless it meets the requirements of Section 10 of the Securities Act.

(See BSE Rules Chapter XXI, “Advertising and Market Letters”, generally).

(b) *Definitions.* For purposes of this Section 24, the following definitions shall apply:

- i. The term “advertisement” shall include any sales material that reaches a mass audience through public media such as newspapers, periodicals, magazines, radio, television, telephone recording, motion picture, audio or video device, telecommunications device, electronic communications device, billboards, signs or through written sales communications to Public Customers or the public that are not required to be accompanied or preceded by one or more current options disclosure documents.
- ii. The term “educational material” shall include any explanatory material distributed or made generally available to Public Customers or the public that is limited to information describing the general nature of the standardized options markets or one or more strategies.

- iii. The term “sales literature” shall include any written communication (not defined as an “advertisement” or as “educational material”) distributed or made generally available to Public Customers or the public that contains any analysis, performance report, projection or recommendation with respect to options, underlying securities or market conditions, any standard forms of worksheets, or any seminar text which pertains to options and which is communicated to Public Customers or the public at seminars, lectures or similar events. “Sales literature” also includes telemarketing scripts.

(See BSE Rules Chapter XXI, “Advertising and Market Letters”, generally).

(c) *Approval by Compliance Options Principal.* All advertisements, sales literature (except completed worksheets), and educational material issued by an [Options Participant]OFP pertaining to options shall be approved in advance by the Compliance Options Principal or designee. Copies thereof, together with the names of the persons who prepared the material, the names of the persons who approved the material and, in the case of sales literature, the source of any recommendations contained therein, shall be retained by the Participant and kept at an easily accessible place for examination by BOXR for a period of three (3) years.

(d) *BOXR Approval Required for Options Advertisements and Educational Material.* In addition to the approval required by paragraph (c) of this Section 24, every advertisement and all educational material of an [Options Participant]OFP pertaining to options shall be submitted to BOXR at least ten (10) days prior to use (or such shorter period as BOXR may allow in particular instances) for approval, and if changed or expressly disapproved by BOXR, shall be withheld from circulation until any changes specified by BOXR have been made or, in the event of disapproval, until the advertisement or educational material has been resubmitted for, and has received, BOXR approval. The requirements of this paragraph (d) shall not be applicable to:

- i. advertisements or educational material submitted to another SRO having comparable standards pertaining to such advertisements or educational material, and
- ii. advertisements in which the only reference to options is contained in a listing of the services of an [Options Participant]OFP.

(See BSE Rules Chapter XXI, “Advertising and Market Letters”, generally).

(e) Except as otherwise provided in this Section, no written materials relative to options may be disseminated to any person who has not previously or contemporaneously received one (1) or more current options disclosure documents.

(f) The special risks attendant to options transactions and the complexities of certain options investment strategies shall be reflected in any advertisement, educational material or sales literature that discusses the uses or advantages of options. Such communications shall include a warning to the effect that options are not suitable for all investors. In the preparation of written communications concerning options, the following guidelines shall be observed:

- i. Any statement referring to the potential opportunities or advantages presented by options shall be balanced by a statement of the corresponding risks. The risk statement shall reflect the same degree of specificity as the statement of opportunities, and broad generalities should be avoided. Thus, a statement such as “with options, an investor has an opportunity to earn profits while limiting his risk of loss,” should be balanced by a statement such as “of course, an options investor may lose the entire amount committed to options in a relatively short period of time.”
- ii. It shall not be suggested that options are suitable for all investors.
- iii. Statements suggesting the certain availability of a secondary market for options shall not be made.

(g) Advertisements pertaining to options shall conform to the following standards:

- i. Advertisements may only be used (and copies of the advertisements may not be sent to persons who have not received one or more options disclosure documents) if the material meets the requirements of Rule 134 under the Securities Act, as that Rule has been interpreted as applying to options. Under Rule 134, advertisements must be limited to general descriptions of the security being offered and of its issuer. Advertisements under this Section shall state the name and address of the person or persons from whom the current options disclosure document(s) may be obtained. Such advertisements may have the following characteristics:

- 1) The text of the advertisement may contain a brief description of such options, including a statement that the

issuer of every such option is the Clearing Corporation. The text may also contain a brief description of the general attributes and method of operation of the exchange or exchanges on which such options are traded and of the Clearing Corporation, including a discussion of how the price of an option is determined on such exchange(s).

- 2) The advertisement may include any statement required by any state law or administrative authority.
  - 3) Advertising designs and devices, including borders, scrolls, arrows, pointers, multiple and combined logos and unusual type faces and lettering, as well as attention-getting headlines and photographs and other graphics, may be used, provided such material is not misleading.
- ii. The use of recommendations or of past or projected performance figures, including annualized rates of return, is not permitted in any advertisement pertaining to options.

(h) Educational material, including advertisements, pertaining to options may be used if the material meets the requirements of Rule 134a under the Securities Act. Those requirements are as follows:

- i. The potential risks related to options trading generally and to each strategy addressed must be explained.
- ii. No past or projected performance figures, including annualized rates of return may be used.
- iii. No recommendation to purchase or sell any options contract may be made.
- iv. No specific security may be identified other than:
  - 1) a security which is exempt from registration under the Act, or an option on such exempt security, or
  - 2) an index option, including the component securities of the index, or
  - 3) a foreign currency option.

- v. The material contains the name and address of a person or persons from whom the appropriate current options disclosure document(s), as defined in Rule 9b-1 of the Exchange Act, may be obtained.
- (i) Sales literature pertaining to options shall conform to the following standards:
- i. Sales literature shall state that supporting documentation for any claims (including any claims made on behalf of the options programs or the options expertise of sales persons), comparisons, recommendations, statistics or other technical data, will be supplied upon request.
  - ii. Such communications may contain projected performance figures (including projected annualized rates of return), provided that:
    - 1) no suggestion of certainty of future performance is made;
    - 2) parameters relating to such performance figures are clearly established (e.g., to indicate the exercise price of an options contract, the purchase price of the underlying stock and the options contract's market price, premium, anticipated dividends, etc);
    - 3) all relevant costs, including commissions and interest charges (if applicable with regard to margin transactions) are disclosed;
    - 4) such projections are plausible and intended as a source of reference or a comparative device to be used in the development of a recommendation;
    - 5) all material assumptions made in such calculations are clearly identified (e.g., "assume option expires," "assume option unexercised," "assume option exercised," etc);
    - 6) the risks involved in the proposed transactions are also discussed; and
    - 7) in communications relating to annualized rates of return, such returns are not based upon any less than a sixty (60) day experience, any formulas used in making calculations

are clearly displayed and a statement is included to the effect that the annualized returns cited might be achieved only if the parameters described can be duplicated and that there is no certainty of doing so.

- iii. Such communications may feature records and statistics that portray the performance of past recommendations or of actual transactions, provided that:
  - 1) any such portrayal is done in a balanced manner and consists of records or statistics that are confined to a specific “universe” that can be fully isolated and circumscribed and that covers at least the most recent twelve (12) month period;
  - 2) such communications include the date of each initial recommendation or transaction, the price of each such recommendation or transaction as of such date, and the date and price of each recommendation or transaction at the end of the period or when liquidation was suggested or effected, whichever was earlier; provided that if the communications are limited to summarized or averaged records or statistics in lieu of the complete record, there may be included in the number of items recommended or transacted, the number that advanced and the number that declined, together with an offer to provide the complete record upon request;
  - 3) such communications disclose all relevant costs, including commissions and interest charges (if applicable with regard to margin transactions) and, whenever annualized rates of return are used, all material assumptions used in the process of annualization;
  - 4) an indication is provided of the general market conditions during the period(s) covered, and any comparison made between such records and statistics and the overall market (e.g., comparison to an index) is valid;
  - 5) such communications state that the results presented should not and cannot be viewed as an indicator of future performance; and

- 6) an Options Principal determines that the records or statistics fairly present the status of the recommendations or transactions reported upon and so initials the report.
- iv. In the case of an options program (i.e., an investment plan employing the systematic use of one or more options strategies), the cumulative history or unproven nature of the program and its underlying assumptions shall be disclosed.
- v. Standard forms of options worksheets utilized by Participants, in addition to complying with the requirements applicable to sales literature, must be uniform within a Participant for each product type (e.g., equity, index, interest rate, etc)..
- vi. If a Participant has adopted a standard form of worksheet for a particular options strategy, nonstandard worksheets for that strategy may not be used.
- vii. Communications that portray performance of past recommendations or actual transactions and completed worksheets shall be kept at a place easily accessible to the sales office for the accounts or Public Customers involved.

(See BSE Rules Chapter XXI, “Advertising and Market Letters”, generally).

## **Sec. 25 Brokers’ Blanket Bond**

(a) Every [Options Participant]OFP approved to transact business with the public under these Rules and every Clearing Participant shall carry Brokers’ Blanket Bonds covering officers and employees of the [Options Participant]OFP in such form and in such amounts as the Exchange may require. (See BSE Rules Chapter XXII-A, “Blanket and Fidelity Bonds”).

(b) All [Options Participants]OFPS subject to paragraph (a) of this Section 25 shall maintain Brokers’ Blanket Bonds as follows:

- i. Maintain a Brokers’ Blanket Bond similar to the standard form established by the Surety Association of America, covering officers and employees which provides against loss and has agreements covering at least the following:
  - 1) Fidelity;

- 2) On Premises;
- 3) In Transit;
- 4) Misplacement;
- 5) Forgery and Alteration (including check forgery);
- 6) Securities Loss (including securities forgery);
- 7) Fraudulent Trading; and
- 8) A Cancellation Rider providing that the insurance carrier will promptly notify BOXR of cancellation, termination or substantial modification of the Bond.

(See BSE Rules Chapter XXII-A, “Blanket and Fidelity Bonds”).

- ii. In determining the initial minimum coverage, the [Options Participant]OFP is to use the highest required net capital during the twelve (12) month period immediately preceding the issuance of the Brokers’ Blanket Bond. Thereafter, a review for adequacy of coverage shall be made at least annually as of the anniversary date of issuance of the subject Bond, and the minimum requirement for the next twelve (12) months shall be established by reference to the highest net capital in the preceding twelve (12) months. Any necessary adjustments shall be made not more than thirty (30) days following the anniversary.

(c) The minimum required coverage for fraudulent trading shall be the greater of \$25,000 or fifty percent (50%) of the coverage required in paragraph (b)(ii) up to a maximum of \$500,000.

(d) The minimum required coverage for securities forgery shall be the greater of \$25,000 or twenty-five percent (25%) of the coverage required in paragraph (b)(ii) up to a maximum of \$250,000.

(e) A deductible provision of up to \$5,000 or ten percent (10%) of the minimum coverage requirement, whichever is greater, may be included in the Bond.

- i. An [Options Participant]OFP may choose to maintain coverage in excess of the minimum requirements as set forth above in

paragraph (b)(ii) of this Section, and in such case, a deductible provision of up to \$5,000 or ten percent (10%) of the amount of the Blanket Bond coverage, whichever is greater, may be included in the Bond purchased. However, the excess of this greater deductible amount over the maximum permissible deductible amounts as described in this paragraph (e) must be subtracted from the [Options Participant]OFP's net worth in the calculation of the [Options Participant]OFP's net capital under SEC Rule 15c3-1.

- ii. Each [Options Participant]OFP shall report the cancellation, termination or substantial modification of the Bond to BOXR within ten (10) business days of such occurrences.

(f) [Options Participants]OFPs with no employees shall be exempt from this Section.

(g) [Options Participants]OFPs subject to a bonding rule of another registered national securities exchange, the SEC, or a registered national securities association that imposes requirements that are equal to or greater than the requirements imposed by this Section shall be deemed to be in compliance with the provisions of this Section.

(See BSE Rules Chapter XXII-A, "Blanket and Fidelity Bonds").

## **Sec. 26 Public Customer Complaints**

(a) Every [Options Participant]OFP conducting a non-Participant Public Customer business shall make and keep current a separate central log, index or other file for all options-related complaints, through which these complaints can easily be identified and retrieved.

(b) The term "options-related complaint" shall mean any written statement by a Public Customer or person acting on behalf of a Public Customer alleging a grievance arising out of or in connection with listed options.

(c) The central file shall be located at the principal place of business of the Participant or such other principal office as shall be designated by the [Options Participant]OFP.

- i. Each options-related complaint received by a branch office of an [Options Participant]OFP shall be forwarded to the office in which the separate, central file is located not later than thirty (30) days after receipt by the branch office.

- ii. A copy of every options-related complaint shall be maintained at the branch office that is the subject of a complaint.
- (d) At a minimum, the central file shall include:
- i. identification of complainant;
  - ii. date complaint was received;
  - iii. identification of the representative servicing the account, if applicable;
  - iv. a general description of the subject of the complaint; and
  - v. a record of what action, if any, has been taken by the Participant with respect to the complaint.

## **Sec. 27 Telephone Solicitation**

(a) No [Options Participant]OFP or associated person shall make an outbound telephone call to any person's residence for the purpose of soliciting the purchase of securities or related services ("telemarketing" or "cold-calling") at any time other than between 8 a.m. and 9 p.m. local time at the called person's location, without that person's prior consent.

(b) No [Options Participant]OFP or associated person shall make an outbound telephone call to any person for the purpose of telemarketing without disclosing promptly and in a clear and conspicuous manner to the called person the following information:

- i. the identity of the caller and the [Options Participant]OFP firm;
- ii. the telephone number or address at which the caller may be contacted; and
- iii. that the purpose of the call is to solicit the purchase of securities or related services.

(c) The prohibitions of paragraphs (a) and (b) do not apply to telephone calls by an associated person of an [Options Participant]OFP (whether acting alone or at the direction of another associated person) who controls or has been assigned to a

Participant's existing Public Customer account for the purpose of maintaining and servicing that account, provided that the call is to:

- i. an existing Public Customer who, within the preceding twelve (12) months, has made a securities transaction in or has deposited funds or securities into an account, that was under the control of or assigned to that associated person at the time of the transaction or deposit;
- ii. an existing Public Customer whose account has earned interest or dividend income during the preceding twelve (12) months, and who previously has made a securities transaction in or has deposited funds or securities into an account, that was under the control of or assigned to the associated person at the time of the transaction or deposit; or
- iii. a broker or dealer.

(d) For purposes of paragraph (c) above, the term "existing Public Customer" means a Public Customer for whom the broker or dealer, or a clearing broker or dealer on its behalf, carries on account. The scope of this Section 27 is limited to the telemarketing calls described herein. The terms of this Section 27 do not impose, expressly or by implication, any additional requirements on Participants with respect to the relationship between a Participant and a Public Customer or between an associated person and a Public Customer.

(e) Each [Options Participant]OFP shall make and maintain a centralized list of persons who have informed the [Options Participant]OFP, or any employee thereof, that they do not wish to receive telephone solicitations, and shall refrain from engaging in telephone solicitations of persons named on such list.

(f) Each [Options Participant]OFP or associated person engaged in telemarketing shall have a Public Customer's express written authorization in order to obtain or submit for payment a check, draft, or other form of negotiable instrument drawn on a Public Customer's checking, savings, share or similar account. Written authorization may include the Public Customer's signature on the negotiable instrument. The authorization must be retained for at least three (3) years. This provision does not require maintenance of copies of negotiable instruments signed by Public Customers.

(g) [Options Participants]OFPs and associated persons that engage in telemarketing also are subject to the requirements of the rules of the Federal Communications Commission relating to telemarketing practices and the rights of telephone consumers.

## CHAPTER XII INTERMARKET LINKAGE RULES

### Sec. 1 Definitions

The following terms shall have the meaning specified in this Section 1 solely for the purpose of this Chapter XII:

(a) "Aggrieved Party" means a member of a Participant Exchange whose bid or offer was traded through.

(b) "Block Trade" means a trade on a Participant Exchange that:

- i. involves 500 or more contracts and has a premium value of at least \$150,000;
- ii. is effected at a price outside of the NBBO; and
- iii. involves either:
  - 1) a cross (where a member of the Participant Exchange represents all or a portion of both sides of the trade), or
  - 2) any other transaction (i.e., in which such member represents an order of block size on one side of the transaction only) that is not the result of an execution at the current bid or offer on the Participant Exchange.

Contemporaneous transactions at the same price on a Participant Exchange shall be considered a single transaction for the purpose of this definition.

(c) "Complex Trade" means the execution of an order in an options series in conjunction with the execution of one or more related orders in different options series in the same underlying security occurring at or near the same time for the equivalent number of contracts and for the purpose of executing a particular investment strategy.

(d) "Crossed Market" means a quotation in which BOX disseminates a bid (offer) in a series of an Eligible Option Class at a price that is greater than (is less than) the price of the offer (bid) for the series then being displayed from another Participant Exchange.

(e) "Eligible Market Maker" with respect to an Eligible Options Class, means a Market Maker that:

- i. is assigned to, and is providing two-sided quotations in the Eligible Options Class; and
- ii. is in compliance with the requirements of Section 5 of this Chapter XII.

(f) "Eligible Option Class" means all option series overlying a security (as that term is defined in Section 3(a)(10) of the Exchange Act) or group of securities, including both put options and call options, which class is traded on BOX and at least one other Participant Exchange.

(g) "Firm Customer Quote Size" with respect to a P/A Order means the lesser of (a) the number of option contracts that the Participant Exchange sending a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Public Customer orders entered directly for execution in that market; or (b) the number of option contracts that the Participant Exchange receiving a P/A Order guarantees it will automatically execute at its disseminated quotation in a series of an Eligible Option Class for Public Customer orders entered directly for execution in that market. This number shall be at least 10.

(h) "Firm Principal Quote Size" means the number of option contracts that a Participant Exchange guarantees it will execute at its disseminated quotation for incoming Principal Orders in an Eligible Option Class. This number shall be 10.

(i) "Linkage" means the systems and data communications network that link electronically the Participants Exchanges for the purposes specified in the Plan.

(j) "Linkage Order" means an Immediate or Cancel Order routed through the Linkage as permitted under the Plan. There are three types of Linkage Orders:

- i. "Principal Acting as Agent ("P/A") Order," which is an order for the principal account of a Market Maker (or equivalent entity on another Participant Exchange that is authorized to represent Public Customer orders), reflecting the terms of a related unexecuted Public Customer order for which the Market Maker is acting as agent;
- ii. "Principal Order" which is an order for the principal account of a market maker (or equivalent entity on another Participant Exchange) and is not a P/A Order; and
- iii. "Satisfaction Order" which is an order sent through the Linkage to notify a Participant Exchange of a Trade-Through and to seek satisfaction of the liability arising from that Trade-Through.

(k) "Locked Market" means a quotation in which BOX disseminates a bid (offer) in a series of an Eligible Option Class at a price that equals the price of the offer (bid) for the series then being displayed from another Participant Exchange.

(l) "NBBO" means the national best bid and offer in an options series as calculated by a Participant Exchange.

(m) "Non-Firm" means, with respect to quotations, that members of a Participant Exchange are relieved of their obligations to be firm for their quotations pursuant to Rule 11Ac1-1 under the Exchange Act.

(n) "Participant Exchange" means a registered national securities exchange that is a party to the Plan.

(o) "Plan" means the Plan for the Purpose of Creating and Operating an Intermarket Option Linkage, as such plan may be amended from time to time.

(p) "Reference Price" means the limit price attached to a Linkage Order by the sending Participant Exchange. Except with respect to a Satisfaction Order, the Reference Price is equal to the bid disseminated by the receiving Participant Exchange at the time that the Linkage Order is transmitted in the case of a Linkage Order to sell and the offer disseminated by the receiving Participant Exchange at the time that the Linkage Order is transmitted in the case of a Linkage Order to buy. With respect to a Satisfaction Order, the Reference Price is the bid or offer price reflecting order(s) of Public Customers disseminated by the sending Participant Exchange that was traded through, except in the case of a Trade-Through that is a Block Trade, in which case the Reference Price shall be the price of the Block Trade that caused the Trade-Through.

(q) "Trade-Through" means a transaction in an options series at a price that is inferior to the NBBO.

(r) "Third Participating Market Center Trade-Through" means a Trade-Through in a series of an Eligible Option Class that is effected by executing a Linkage Order, and such execution results in a sale (purchase) at a price that is inferior to the best bid (offer) being disseminated by another Participant Exchange.

(s) "Verifiable Number of Customer Contracts" means the number of Public Customer contracts in the book of a Participant Exchange.

## **Sec. 2 Operation of the Linkage**

By subscribing to the Plan, BOXR has agreed to comply with, and enforce compliance by BOX Options Participants with, the Plan. In this regard, the following shall apply:

(a) Pricing. Market Makers may send P/A Orders or Principal Orders through the Linkage only if such orders are priced at the NBBO.

(b) Non-firm markets

- i. *Transmission of Principal Orders When BOX is Disseminating Non-Firm Quotations.* Whenever and so long as BOX is disseminating Non-Firm Quotations in an Eligible Options Class, no market maker may transmit a Principal Order with respect to such Eligible Option Class through the Linkage
- ii. *Transmission of Linkage Orders to Another Participant Exchange Disseminating Non-Firm Quotations.* A market maker shall not send a Principal Order or P/A Order in an Eligible Option Class to a Participant Exchange whose quotations in such class are Non-Firm.

(c) P/A Orders

- i. *Sending of P/A Orders for Sizes No Larger than the Firm Customer Quote Size.* A Market Maker may send through the Linkage a P/A Order for execution in the automatic execution system of a Participant Exchange if the size of such P/A Order is no larger than the Firm Customer Quote Size. Except as provided in subparagraph (ii) below, a Market Maker may not break up an order of a Public Customer that is larger than the Firm Customer Quote Size into multiple P/A orders, one or more of which is equal to or smaller than the Firm Customer Quote size, so that such orders could be represented as multiple P/A Orders through the Linkage.
- ii. *Sending of P/A Orders for Sizes Larger than the Firm Customer Quote Size.* If the size of a P/A Order is larger than the Firm Customer Quote Size, a Market Maker may send through the Linkage such P/A Order in one of two ways:
  - 1) *The Market Maker may send a P/A Order representing the entire Public Customer order. If the receiving Participant Exchange disseminated quotation is equal to or better than the Reference Price when the P/A Order arrives at that market, that Exchange will execute the P/A Order at its disseminated quotation for at least the Firm Customer Quote Size. Within 15 seconds of receipt of such order, the receiving Participant Exchange will inform the Market*

Maker of the amount of the order executed and the amount, if any, that was canceled.

- 2) Alternatively, the Market Maker may send an initial P/A Order for the Firm Customer Quote Size pursuant to subparagraph (c)(i) above. If the Participant Exchange executes the P/A Order and continues to disseminate the same quotation at the NBBO 15 seconds after reporting the execution of the initial P/A Order, the Market Maker may send an additional P/A Order to the same Participant Exchange. If sent, such additional P/A Order must be for at least the lesser of 100 contracts or the entire remainder of the Customer order.

In any situation where a receiving Participant Exchange does not execute a P/A order in full, such exchange is required to move its quotation to a price inferior to the Reference Price of the P/A Order.

(d) *Principal Orders.*

- i. *Sending of an initial Principal Order.* An Eligible Market Maker may send a Principal Order through the Linkage at a price equal to the NBBO. Subject to the next paragraph, if the Principal Order is not larger than the Firm Principal Quotation Size, the receiving Participant Exchange will execute the Principal Order in its automatic execution system, if available, if its disseminated quotation is equal to or better than the price specified in the Principal Order when that order arrives at the receiving Participant Exchange. If the Principal Order is larger than the Firm Principal Quotation Size, the receiving Participant Exchange will (1) execute the Principal Order at its disseminated quotation for at least the Firm Principal Quote Size and (2) within 15 seconds of receipt of such order, reply to the sending Participant Exchange, informing such Participant Exchange of the amount of the order that was executed and the amount, if any, canceled. If the receiving Participant Exchange does not execute the Principal Order in full, it will move its quote to a price inferior to the Reference Price of the Principal Order.
- ii. *Receipt of Multiple Principal Orders.* Once BOX provides an automatic execution of a Principal Order in a series of an Eligible Option Class (the "initial execution"), BOX may reject any Principal Order(s) in the same Eligible Option Class sent by the

same Participant Exchange for 15 seconds after the initial execution unless: (1) there is a change of price in BOX's disseminated offer (bid) in the series of the Eligible Option Class in which there was the initial execution; and (2) such price continues to be the NBBO. After this 15 second period, and until the sooner of (a) one minute after the initial execution or (b) a change in the BOX disseminated bid (offer), BOX is not obligated to provide an automatic execution for any Principal Orders in the same Eligible Option Class received from the Participant Exchange that sent the order resulting in the initial execution, and thus may treat any such Principal Orders as being greater than the Firm Principal Quote Size.

(e) Responses to Linkage Orders.

- i. Failure to receive a timely response. A Market Maker who does not receive a response to a P order or a P/A order within 20 seconds of sending the order, may reject any response received thereafter purporting to report an execution of all or part of that order. The Market Maker so rejecting the response shall inform the Participant Exchange sending that response of the rejection within 15 seconds of receipt of the response.
- ii. Failure to send a timely response. If a Market Maker responds to a P order or P/A order more than 20 seconds after receipt of that order, and the Participant Exchange to whom the Market Maker responded cancels such response, the Market Maker shall cancel any trade resulting from such order and shall report the cancellation to OPRA.

(f) Receipt of Linkage Orders. BOX will provide for the Execution of P/A orders and Principal orders if its disseminated quotation is (i) equal to or better than the Reference Price, and (ii) equal to the then-current NBBO. Subject to paragraph (c) above, if the size of a P/A order or Principal order is not larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, BOX will provide for the execution of the entire order, and shall execute such order in its automatic execution system. If the size of a P/A order or Principal order is larger than the Firm Customer Quote Size or Firm Principal Quote Size, respectively, the Market Maker must address the order within 15 seconds to provide an execution for at least the Firm Customer Quote Size or Firm Principal Quote Size, respectively. If the order is not executed in full, BOX will move its disseminated quotation to a price inferior to the Reference Price.

(g) Notice and Mitigation of Damages; Compensation Limits. Other than with respect to Trade-Throughs, an Options Participant who believes that a member of another

Participant Exchange or such Participant Exchange's employee took an action or failed to take an action prohibited or required by the Plan, or by such other Participant Exchange's Rules adopted pursuant to the Plan, may take steps to establish and mitigate any loss the Options Participant might incur as a result of the action or inaction and shall give prompt notice of any such steps. No such Options Participant shall be entitled to compensation for any such action or inaction in excess of the amount to which the Options Participant would have been entitled had such Options Participant taken such steps promptly after the Options Participant reasonably should have known (or did know, if earlier) that the action had occurred or had failed to occur. If the close of trading on BOX occurred before such prompt action could have been taken, then the time for such prompt action shall be deemed to be the opening of the trading in the affected option series on BOX on the next day on which that option series trades on BOX.

### **Sec. 3 Order Protection**

(a) *Avoidance and Satisfaction of Trade-Throughs*

i. *General Provisions.* Absent reasonable justification and during normal market conditions, Options Participants should not effect Trade-Throughs. Except as provided in paragraph (b) below, if an Options Participant effects a Trade-Through with respect to the bid or offer of a Participant Exchange in an Eligible Option Class and BOX receives a Satisfaction Order from an Aggrieved Party, either:

- 1) the Options Participant who initiated the Trade-Through shall satisfy, or cause to be satisfied, the Aggrieved Party by filling the Satisfaction Order in accordance with subparagraph (a)(ii) below; or
- 2) if the Options Participant elects not to do so (and, in the case of Third Participating Market Center Trade-Through, the Options Participant obtains the agreement of the contra party that received the Linkage Order that caused the Trade-Through), then the price of the transaction that constituted the Trade-Through shall be corrected to a price at which a Trade-Through would not have occurred. If the price of the transaction is corrected, the Options Participant correcting the price shall report the corrected price to OPRA, notify the Aggrieved Party of the correction and cancel the Satisfaction Order.

ii. *Price and Size.* The price and size at which a Satisfaction Order shall be filled are as follows:

- 1) Price. A Satisfaction Order shall be filled at the Reference Price.
- 2) Size. An Aggrieved Party may send a Satisfaction Order up to the size of the Verifiable Number of Customer Contracts that were included in the disseminated bid or offer that was traded through. Subject to subparagraph (i)(1) above and paragraph (b) below, the receiving Options Participant shall fill all Satisfaction Orders it receives in full following a Trade-Through, subject to the following limitations:
  - a. If the number of contracts to be satisfied exceeds the size of the transaction that caused the Trade-Through, the size of the Satisfaction Order(s) that must be filled with respect to each Participant Exchange(s) shall be limited to the size of the transaction that caused the Trade-Through, and the remainder of any Satisfaction Order(s) shall be canceled;
  - b. If the transaction that caused the Trade-Through was for a size larger than the Firm Customer Quote Size with respect to any of the Participant Exchange(s) traded through, the total number of contracts to be filled with respect to all Satisfaction Orders received shall not exceed the size of the transaction that caused the Trade-Through. In that case, the receiving Options Participant shall fill the Satisfaction Orders pro rata based on the Verifiable Number of Customer Contracts traded through on each Participant Exchange and shall cancel the remainder of such Satisfaction Order(s); and
  - c. Notwithstanding subparagraphs (a) and (b) above, if the transaction that caused the Trade-Through occurred in the period between five minutes prior to the regularly-scheduled close of trading in the principal market in which the underlying security is traded and the close of trading in the Options Class, the maximum number of contracts that an Options Participant must fill with respect to any Satisfaction Order from any Participant Exchange is 10 contracts.

3) Rejection of Fills of Satisfaction Orders. Within 30 seconds of receipt of notification that another Participant Exchange has filled an Options Participant's Satisfaction Order, the Options Participant that sent the Satisfaction Order may reject such fill, but only to the extent that either: (1) the order(s) for the customer contracts underlying the Satisfaction Order already have been filled; or (2) the customer order(s) to buy (sell) the contracts underlying the Satisfaction Order were canceled.

4) Protection of Customers. Whenever paragraph (a)(i) applies, if Public Customer orders (or P/A Orders representing Public Customer orders) constituted either or both sides of the transaction involved in the Trade-Through, each such Public Customer order (or P/A Order) shall receive:

a. the price that caused the Trade-Through; or

b. the price at which the bid or offer traded through was satisfied, if it was satisfied, pursuant to subparagraph (a)(i)(1) or the adjusted price, if there was an adjustment, pursuant to subparagraph (a)(i)(2);

whichever price is most beneficial to the Public Customer order. Resulting differences in prices shall be the liability of the Options Participant who initiated the Trade-Through.

(b) Exceptions to Trade-Through Liability. Paragraph (a) shall not apply under the following circumstances:

i. the Options Participant who initiated the Trade-Through made every reasonable effort to avoid the Trade-Through, but was unable to do so because of a systems/equipment failure or malfunction;

ii. the Options Participant trades through the market of a Participant Exchange to which such Options Participant had sent a P/A Order or Principal Order, and within 20 seconds of sending such order the receiving Participant Exchange had neither executed the order in full nor adjusted the quotation traded through to a price inferior to the Reference Price of the P/A Order or Principal Order;

- iii. the bid or offer traded through was being disseminated from a Participant Exchange whose quotes were Non-Firm with respect to such Eligible Option Class;
- iv. the Trade-Through was other than a Third Participating Market Center Trade-Through and occurred during a period when, with respect to the Eligible Option Class, BOX's quotes were Non-Firm; provided, however, that, unless one of the other conditions of this paragraph (b) applies, during any such period: (1) Options Participants shall make every reasonable effort to avoid trading through the firm quotes of another Participant Exchange; and (2) it shall not be considered an exception to paragraph (a) if an Options Participant regularly trades through the firm quotes of another Participant Exchange during such period;
- v. the bid or offer traded through was being disseminated by a Participant Exchange during a trading rotation in the Eligible Option Class;
- vi. the transaction that caused the Trade-Through occurred during a trading rotation;
- vii. the transaction that caused the Trade-Through was effected as a portion of a "complex trade";
- viii. in the case of a Trade-Through other than a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the Trade-Through was not received by BOX from the Aggrieved Party promptly following the Trade-Through and, in any event, (1) except in the final five minutes of trading, within three minutes from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA, and (2) in the final five minutes of trading, within one minute from the time the report of the transaction(s) that constituted the Trade-Through was disseminated over OPRA; or
- ix. in the case of a Third Participating Market Center Trade-Through, a Satisfaction Order with respect to the Trade-Through was not received by the Exchange that initiated the Trade-Through promptly following the Trade-Through. In applying this provision, the Aggrieved Party must send the Exchange that executed the Linkage Transaction a Satisfaction Order within three minutes from the time the report of the transaction that constituted the Trade-Through was disseminated over OPRA. To avoid liability

for the Trade-Through, the Options Participant receiving such Satisfaction Order must cancel the Satisfaction Order and inform the Aggrieved Party of the identity of the Participant Exchange that initiated the Trade-Through within three minutes of the receipt of such Satisfaction Order (within one minute in the final five minutes of trading). The Aggrieved Party then must send the Participant Exchange that initiated the Trade-Through a Satisfaction Order within three minutes of receipt of the cancellation of the initial Satisfaction Order (within one minute in the final five minutes of trading).

(c) *Responsibilities and Rights Following Receipt of Satisfaction Orders.*

i. When a Satisfaction Order is received by the Options Participant who initiated the Trade-Through, that Options Participant shall respond as promptly as practicable to the Aggrieved Party by either:

- 1) notifying the Aggrieved Party that one of the exceptions to Trade-Through liability specified in paragraph (b) above is applicable and identifying that particular exception; or
- 2) taking the appropriate corrective action pursuant to paragraph (a) above.

ii. If the Options Participant who initiated the Trade-Through fails to respond to a Satisfaction Order or otherwise fails to take the corrective action required under paragraph (a) within three minutes of receiving a Satisfaction Order, and the Exchange determines that:

- 1) there was a Trade-Through; and
- 2) none of the exceptions to Trade-Through liability specified in paragraph (b) above were applicable;

then, subject to the next paragraph, the Options Participant who initiated the Trade-Through shall be liable to an Aggrieved Party for the amount of the actual loss resulting from non-compliance with paragraph (a) and caused by the Trade-Through.

If either (a) the Aggrieved Party does not establish the actual loss within 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or in the event it did not receive

a response, within four minutes from the time the Aggrieved Party sent the Satisfaction Order) or (b) the Aggrieved Party does not notify the Participant Exchange that initiated the Trade-Through of the amount of such loss within one minute of establishing the loss, then the liability shall be the lesser of:

- the actual loss; or
- the loss caused by the Trade-Through that the Aggrieved Party would have suffered had that party purchased or sold the option series subject to the Trade-Through at the "mitigation price."

The "mitigation price" is the highest reported bid (in the case where an offer was traded through) or the lowest reported offer (in the case where a bid was traded through) in the series in question 30 seconds from the time the Aggrieved Party received the response to its Satisfaction Order (or, in the event that it did not receive a response, four minutes from the time the Aggrieved Party sent the Satisfaction Order). If the Participant Exchange receives a Satisfaction Order within the final four minutes of trading (on any day except the last day of trading prior to the expiration of the series which is the subject of the Trade-Through), then the mitigation price shall be the price established at the opening of trading in that series on the Aggrieved Party's Participant Exchange on the next trading day. However, if the price of the opening transaction is below the opening bid or above the opening offer as established during the opening rotation, then the mitigation price shall be the opening bid (in the case where an offer was traded through) or opening offer (in the case where a bid was traded through). If the Trade-Through involves a series that expires on the day following the day of the Trade-Through and the Satisfaction Order is received within the last four minutes of trading, the mitigation price shall be the final bid (in the case where an offer was traded through) or offer (in the case where a bid was traded through) on the day of the Linkage Transaction that resulted in the Trade-Through.

iii. An Options Participant that is an Aggrieved Party under the rules of another Participant Exchange governing Trade-Through liability must take steps to establish and mitigate any loss such Options Participant might incur as a result of the Trade-Through of the Options Participant's bid or offer. In addition, the Options Participant shall give prompt notice to the other Participant Exchange of any such action in accordance with subparagraph (c) (ii) above.

(d) *Limitations on Trade-Throughs.* Options Participants may not engage in a pattern or practice of trading through better prices available on other Exchanges, whether or not the Exchange or Exchanges whose quotations are traded through are Participant Exchanges, unless one or more of the provisions of paragraph (b) above are applicable. In applying this provision:

- i. The Exchange will consider there to have been a Trade-Through if an Options Participant executes a trade at a price inferior to the NBBO even if the Exchange does not receive a Satisfaction Order from an Aggrieved Party pursuant to paragraph (a) (i);
- ii. The Exchange will not consider there to have been a Trade Through if an Options Participant executes a Block Trade at a price inferior to the NBBO if such Options Participant satisfied all Aggrieved Parties pursuant to paragraph (a)(ii) following the execution of the Block Trade; and
- iii. The Exchange will not consider there to have been a Trade-Through if an Options Participant executes a trade at a price inferior to the quotation being disseminated by an Exchange that is not a Participant Exchange if the Options Participant made a good faith effort to trade against the superior quotation of the non-Participant Exchange prior to trading through that quotation. A “good faith effort” to reach a non-Participant Exchange’s quotation requires that an Options Participant at least had sent an order that day to the non-Participant Exchange in the class of options in which there is a Trade-Through, at a time at which such non-Participant Exchange was not relieved of its obligation to be firm for its quotations pursuant to Rule 11Ac-1-I under the Exchange Act, and such non-Participant Exchange neither executed that order nor moved its quotation to a price inferior to the price of the Options Participant’s order within 20 seconds of receipt of that order.

#### **Sec. 4 Locked and Crossed Markets**

(a) Eligible Market Maker locking or crossing a market. An Eligible Market Maker that creates a Locked Market or a Crossed Market shall unlock or uncross that market or shall direct a Principal Order through the Linkage to trade against the bid or offer that the Eligible Market Maker crossed (locked);

(b) Options Participants other than an Eligible Market Maker Locking or Crossing a Market. An Options Participant other than an Eligible Market Maker that creates a locked or crossed market shall unlock (uncross) that market.

#### **Sec. 5 Limitation on Principal Order Access**

(a) A BOX Eligible Market Maker may not send a P order to a Participant Exchange unless he is posting on the BOX Central Limit Order Book a bid and an offer for at least ten contracts on either side and with a spread between the bid and offer prices equal to or less than that provided for in the Market Maker obligations.

(b) Additionally, A Market Maker shall not be permitted to send Principal Orders in an Eligible Option Class through the Linkage for a given calendar quarter if the market maker effected less than 80 percent of its volume in that Eligible Option Class on the Exchange in the previous calendar quarter (that is, the market maker effected 20 percent or more of its volume by sending Principal Orders through the Linkage). This 80/20 is represented as follows:

$$\frac{X}{X+Y}$$

“X” equals the total contract volume the Market Maker effects in an Eligible Option Class against orders of Public Customers on the Exchange during a calendar quarter (a) including contract volume effected by executing P/A orders sent to the Exchange through the Linkage but (b) excluding contract volume effected by sending P/A orders through the Linkage for execution on another Participant Exchange. “Y” equals the total contract volume the market maker effects in such Eligible Option Class by sending Principal Orders through the Linkage during that calendar quarter.

#### **Sec.6 Liability for the Options Market Linkage**

(a) The Linkage as used to send orders and other information to or from BOX is a facility or service afforded by BOX . It is the responsibility of each Participant to verify the accuracy of transactions sent and received through the Linkage.

(b) The OCC, its affiliates, officers, directors, shareholders, agents and employees, shall not be liable to Participants for any loss, damage, claim or expense arising out of the use, non-use, or inability to use the Linkage, including without limitation the content of orders, trades or other business facilitated through the Linkage, the truth or accuracy of the content of messages or other information transmitted through the Linkage, the delays in transmission of orders, trades or otherwise.

## **Chapter XIII. Margin Requirements**

### **Sec. 1. General Rule**

No Participant or associated person may effect a transaction or carry an account for a Customer, whether a Participant or non- Participant of BOX, without proper and adequate margin in accordance with this Chapter XIII and Regulation T.

### **Sec. 2. Time Margin Must be Obtained**

The amount of margin required by this Chapter XIII shall be obtained as promptly as possible and in any event within a reasonable time.

### **Sec. 3. Margin Requirements**

(a) A Participant or associated person must be bound by the initial and maintenance margin requirements of either the Chicago Board Options Exchange ("CBOE") or the New York Stock Exchange ("NYSE") as the same may be in effect from time to time.

(b) Such election shall be made in writing by a notice filed with BOXR.

(c) Upon the filing of such election, a Participant or associated person shall be bound to comply with the margin rules of the CBOE or the NYSE, as applicable, as though said rules were part of these Rules.

### **Sec. 4. Margin Required is Minimum**

The amount of margin prescribed by these Rules is the minimum which must be required initially and subsequently maintained with respect to each account affected thereby: but nothing in these Rules shall be construed to prevent a Participant or associated person from requiring margin in an amount greater than that specified.

### **Sec. 5. Joint Back Office Participants**

(a) Requirements for Joint Back Office Participants. Every Participant or associated person that maintains a joint back office ("JBO") arrangement with a clearing broker-dealer subject to the requirements of Regulation T Section 220.7 of the Federal

Reserve System that is not an NYSE member and that has elected instead to be bound by CBOE margin requirements shall comply with the requirements prescribed below:

- i. Each JBO participant must be registered as a broker-dealer pursuant to Section 15 of the Securities Exchange Act of 1934 and subject to the capital requirements prescribed by Rule 15c3-1 therein; and shall not be eligible to operate under the provisions of SEC Rule 15c3-1(b)(i).
- ii. Each JBO participant must meet and maintain a minimum account equity requirement of \$1,000,000 with each clearing broker-dealer where a JBO account is carried. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.
- iii. Each JBO participant must meet and maintain the ownership standards established by the clearing broker-dealer; and
- iv. Each JBO participant must employ (or have access to) a qualified Series 27 principal.

(b) *Requirements for Clearing Participants Carrying the Accounts of JBO Participants.* Every Clearing Participant carrying JBO accounts in accordance with Regulation T, Section 220.7 of the Federal Reserve Board is subject to the requirements outlined below:

- i. Each Participant which carries JBO accounts shall not allow its (a) tentative net capital to fall below \$25 million; or in the alternative its (b) net capital to fall below \$7 million for a period in excess of three (3) consecutive business days, provided that the broker-dealer has as its primary business the clearance of options market maker accounts and provided that at least 60% of the sum of gross haircuts calculated for all options market maker and JBO participant accounts, without regard to related account equity or clearing firm net capital charges, is attributable to options market maker transactions. In addition, the firm operating pursuant to (b) must include the gross deductions calculated for all JBO participant accounts in the clearing firm's ratio of gross options market maker deductions to adjusted net capital in accordance with the provisions of SEC Rule 15c3-1.

- ii. Each Participant which maintains JBO accounts shall require and maintain equity of \$1,000,000 for each participant, over all related accounts. If equity is below \$1,000,000 the carrying organization must issue a call for additional funds or securities which shall be obtained within five business days. If funds or securities sufficient to eliminate the deficiency are not received within 5 business days, the carrying organization must margin the account in accordance with the requirements prescribed for a customer in Regulation T and Chapter XIII of these Rules.
- iii. Each Participant which maintains JBO accounts shall adjust its net worth daily by deducting any deficiency between a JBO Participant's account equity and the proprietary haircut calculated pursuant to SEC Rule 15c3-1 for the positions maintained in such account.
- iv. Each Participant which maintains JBO accounts shall establish and maintain written ownership standards for JBO accounts.
- v. The Participant must develop risk analysis standards which are acceptable to the BOXR. At minimum these standards must comply with the requirements of Chapter VIII, Section 6 of these Rules.
- vi. Each Participant which maintains JBO accounts must notify its Designated Examining Authority ("DEA"), in writing, of its intention to carry such accounts.
- vii. If at any time a Clearing Participant operating pursuant to paragraphs i(a) or (b) above determines that its tentative net capital or that its net capital, respectively, has fallen below the applicable requirements, such clearing member shall immediately notify BOXR of such deficiency by telegraphic or facsimile notice; and be subject to the prohibitions against withdrawal of equity capital set forth in SEC Rule 15c3-1(e) and to the prohibitions against reduction, prepayment, and repayment of subordination agreements set forth in paragraph (b)(1) of SEC Rule 15c3-1d, as if such broker or dealer's net capital were below the minimum standards specified by each of these paragraphs.

#### **Supplementary Material to Section 5**

.01 JBO participants shall not be considered self-clearing for any purpose other than the extension of credit under Chapter XIII of these Rules.

**Appendix**

As BOX is a facility of the BSE, BOX Options Participants must adhere to the BOX Rules and the Constitution and Rules of the BSE as well. This Appendix lists the Articles of the Constitution and Rules of the BSE that apply to the trading of securities on BOX. In addition, the following is intended to assist BOX Options Participants in assessing where a section of the BSE Rules is supplemented by a specific BOX Rule. Where an Article of the Constitution or a Rule of the BSE is supplemented by a BOX Rule, that fact is so indicated.

Existing BSE Rule	Supplemented by BOX Rule
<b>Constitution</b>	
<b><u>Article IX</u> Membership</b>	
Section:	
3. Qualification for membership	Ch. II, Sec.3(b)
6. Investigation and acceptance by Exchange	Ch. II, Sec. 1(c)
<b><u>Article X</u> Dues and Fines</b>	
Section:	
1. How fixed	Ch. V, Sec. 2(a)
2. Failure to pay	Ch. V, Sec. 2(d)
<b><u>Article XIII</u> Insolvent Members</b>	Ch. II, Sec. 6; Ch. IX, Secs.3(c), 5
Section:	
1. Notice to the Exchange	
2. Notification by the Exchange	
3. Procedure for reinstatement	Ch. <del>XI</del> IX, Sec. <del>5</del> 3
4. Lien on membership	
5. Failure to apply for reinstatement	Ch. IX, Sec. 4
6. Statement required	
7. Reckless or unbusinesslike conduct	
<b><u>Article XIV</u> Expulsion and Suspension</b>	Ch. V, Sec. 1(b)(vii); Ch. IX, Secs. 1(a), 1(b), 2, 3(a), 3(b), 5
Section:	
1. Necessary votes for expulsion and suspension	
2. Expulsion for fraudulent acts	Ch. XI, Sec. 7
3. Penalty for misstatements	Ch. XI, Sec. 7
4. Suspension or expulsion for violation of constitution or rules	Ch. XI, Sec. 7
5. Suspension for acts detrimental	Ch. XI, Sec. 7
6. Exchange inquiries	Ch. II, Sec. 4(a), Ch. VIII, Sec. 1(a)
7. Penalties	

8. Announcement of expulsion or suspension and its effect	Ch. IX, Sec. 1(c)
<b>Article XVI Offices and Associates</b>	
Section:	
1. Addresses of members	
2. Approval of firms and corporations	
3. Membership in only one firm or corporation	
4. Joining with suspended or insolvent persons prohibited	
5. Members responsible for acts of partners and officers	
6. Notices to estates of deceased members	
7. Alternates for members absent	Ch. XI, Sec. 3(a)
<b>Rules of the Board of Governors of the BSE</b>	
<b>CHAPTER I Definitions</b>	
Section:	
1. Exchange Board of Governors	
2. Member, Membership, Member-Firm, etc.	Ch. III, Sec. 7(e)
3. Orders	
<b>CHAPTER I-A Access to Records</b>	
Section:	
1. Restrictions on Access--Copies	
<b>CHAPTER I-B Business Hours</b>	
Section:	
1. Primary Session	Ch. V, Secs. 3(b), 3(c), 10(a)
2. Dealings on Floor--Hours	
3. Dealings on Floor—Persons	Ch. XI, Sec. 3(a)
<b>CHAPTER II Dealings on the Exchange</b>	
Section:	
2. Recording of sales	
3. Bids and Offers Binding	Ch. V, Secs. 7, 21
6. Bids and Offers for Stocks	Ch. V, Secs. 14(b), 16(a)(i)
7. Dissemination of Quotations	Ch. VI, Secs. 6(c), 6(c)(5)
8. Excessive Trading by Members	Ch. XI, Sec. 12([g]c)
9. Trading for Joint Account	
10. Discretionary Transactions	Ch. XI, Secs. 10(a), 12(a), 12([f]d)
11. Trading While Acting as a Broker as to Market Orders	
12. Successive Transactions	
13. Trading Against Privileges	
14. Unbusinesslike Dealing	
15. Record of Orders from Offices to Floor	Ch. II, Sec. 2(e); Ch. VIII, Sec. 1(a)
19. Wide Market	
20. Undisclosed Compensation	
21. Fictitious Transactions	

25. Violation of Securities Exchange Act of 1934	
26-31. Anti-Manipulative Provisions	Ch. III, Sec. 3; Ch. V, Sec. 1(b)(vi)
36. Specialist Member Organizations Affiliated with an Approved Person	Ch. II, Sec. 2(e); Ch. VI, Secs. 10(a), 10(c)-(e)
37. ITSFEA procedures	Ch. III, Sec. 4
40. Limit Order Display Rule	
<b>CHAPTER III Comparisons-Liability on Contracts</b>	
Section:	
1. Reporting Transactions	
2. Penalty for Neglect	
3. Errors in Comparison	
4. Failures to Compare	
5. Substitution of Principals	
7. Book-Entry Settlement	
8. Depository Eligibility Rule	
<b>CHAPTER IV Contracts on Time-Deposits</b>	
Section:	
1. Interest Thereon	
2. Falling Due on Holidays	
3. Deposits Required	
4. Failure to Make Deposit	
5. Deposits--Where Made	
<b>CHAPTER VI Failure to Fulfill Contracts</b>	Ch. V, Secs. 24(a), (b)
Section:	
1. Closing Contracts	
2. Notice of Closing Contracts	
3. Procedure--Notice of Intention to Buy or Sell	
4. How Default May be Cured	
5-6. Notices as to Closed Contract	
7-8. Orders Must be in Writing	
9-10. Penalties for Defaults	
13. Payment of Loan of Money	
<b>CHAPTER VII Carrying of Accounts- Customers' Securities- Give-Up Orders</b>	Ch. XI, Secs. 9(a), 10, 10(a)
Section:	
1. Adequate Margin Required	
2. Improper Margin Transactions Prohibited	Ch. XI, Secs. 9(b), (c),
3. Improper Use of Customer's Securities	Ch. XI, Secs. 18(a)-(d)
4. "Give-Ups"	Ch. V, Sec. 22, Ch. XI, Secs. 18(b)-(d)
5. Securities to be Available to Customer	Ch. XI, Secs. 18(b)-(d)
<b>CHAPTER VIII Minimum Amount of Margin on Transactions Made During the Course of a Single Day in Accounts of Members, Allied-</b>	<b>[Ch. VIII, Secs. 1(a), (b)]</b>

<b>Members and Member-Organizations</b>	
Section:	
1. Members' and Allied-Members' Accounts	
2. Member-Organization Accounts	
<b>CHAPTER XV Specialists</b>	
Section:	
1. Registration	Ch. VI., Secs. 1, 3, 5(c), (a)
2. Responsibilities	Ch. VI, Secs. 5 (a), (b), (e), 7(a)
3. Code of Acceptable Business Practices for Specialists	
4. Precedence to Orders in the Book	
5. Preference on Competitive Basis	
7. Joint Accounts	Ch. VI, Sec. 7(c)
8. Records	Ch. VIII, Sec. 1(a)
12. Restriction on Transactions by Issuing Company	
13. Suspension of Registration	
14. Claims and Reports Against Specialists	
<b>CHAPTER XVII Members Dealing for Own Account</b>	
<b>CHAPTER XVIII Conduct</b>	
Section:	
1. Penalties	
2. False and Sensational Reports	
3. Other Penalties	
4. Imposition of Fines for Minor Violation(s) of Rules and Floor Decorum Policies	
5. Failure to Respond to Exchange Inquiries	Ch. V, Sec. 1(b)(vii)
<b>CHAPTER XIX Wire Connections</b>	
Section:	
1. Registration with Exchange-- Notice of Discontinuance	
<b>CHAPTER XX Employees for the Solicitation of Business</b>	
Section:	
1. Nominal Employment Forbidden	Ch. II, Sec. 4(b)
2. Prior Approval Required	Ch. II, Sec. 4(b)
3. Types of Registration	
4. Exchange May Disapprove	Ch. II, Sec. 3(a)
5. Notice of Termination	Ch. XI, Secs. 2(c), 4(a)
6. Gratuities	
<b>CHAPTER XXI Advertising and Market Letters</b>	
Section:	
1. False or Misleading Material	
2. Definitions	
3. Review by Exchange	
4. Radio and Television Broadcasts	

5. Responsibility of Exchange	
6. Contents of Material-Limitations	
7. Recommendations	Ch. XI, Secs. 11(a), (b)
8. Testimonials and Statements	Ch. XI, Secs. 11(a), (b)
<b>CHAPTER XXII Financial Reports and Requirements--Aggregate Indebtedness--Net Capital Member's and Member-Organization's Statement of Financial Condition</b>	Ch. VIII, Secs. 1(a), 1(b)
Section:	
1. Member's and Member-Organization's Statement of Financial Condition	Ch. II, Secs. 2(d), (e)
2. Capital and Equity Requirements	Ch. II, Secs. 2(d), (e)
<b>CHAPTER XXII-A Blanket and Fidelity Bonds</b>	Ch. XI, Sec 25(a), 25(c)
<b>CHAPTER XXIV Portfolio Depository Receipts</b>	
Section:	
1. Applicability	
2. Definitions	
3. Disclosure	
4. Designation of an Index or Portfolio	
5. Initial and Continued Listing and/or Trading	
6. Limitation on Exchange Liability	
7. Nasdaq-100 Index	
<b>CHAPTER XXIV-A Trust Issued Receipts</b>	[Ch. IV, Secs. 3, 4(j)]
Section:	
1. Applicability	
2. Definitions	
3. Disclosure	
4. Designation	
5. Initial and Continued Listing and/or Trading	
<b>CHAPTER XXIV-B Index Fund Shares</b>	[Ch. IV, Secs. 3(i), 4(i)]
Section:	
1. Applicability	
2. Definitions	
3. Disclosure	
4. Designation	
5. Initial and Continued Listing and/or Trading	
<b>CHAPTER XXX Disciplining of Members—Denial of Membership</b>	Ch. II, Sec. 3; Ch. VIII, Secs. 5(b), (c)
<b>CHAPTER XXXII Arbitration</b>	
Section:	
1. Arbitration Code	
2. Simplified Arbitration	
3. Hearing Requirements--Waiver of Hearing	
4. Time Limitation Upon Submission	
5. Dismissal of Proceedings	

6. Settlements	
7. Tolling of Time Limitation(s) for the Institution of Legal Proceedings	
8. Designation of Number of Arbitrators	
9. Notice of Selection of Arbitrators	
10. Peremptory Challenge	
11. Disclosures Required of Arbitrators	
12. Disqualification or Other Disability of Arbitrators	
13. Initiation of Proceedings	
14. Designation of Time and Place of Hearings	
15. Representation by Counsel	
16. Attendance at Hearings	
17. Failure to Appear	
18. Adjournments	
19. Acknowledgement of Pleadings	
20. General Provisions Governing Pre-Hearing Proceedings	
21. Evidence	
22. Interpretation of Code	
23. Determinations of Arbitrators	
24. Record of Proceedings	
25. Oaths of the Arbitrators and Witnesses	
26. Amendments	
27. Reopening of Hearings	
28. Awards	
29. Agreement to Arbitrate	
30. Schedule of Fees	
31. Uniform Arbitration Code	
32. Member Controversies	
33. Requirements When Using Pre-Dispute Arbitration Agreements with Customers	
34. Director of Arbitration	
35. Failure to Honor Award	
<b>CHAPTER XXXIII BEACON—Routing Network</b>	
Section:	
7. BEACON Liability	Ch. V, Sec. 26
<b>CHAPTER XXXIV Minor Rule Violations</b>	
Section:	
1. General	
2. Rule Violations	
<b>CHAPTER XXXV Trading in Nasdaq Securities</b>	
28. Short Sales	Ch. VI, Sec. 11